

**SPENCER MUNICIPAL HOSPITAL AND  
SPENCER REGIONAL HEALTHCARE FOUNDATION  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION, AND  
INDEPENDENT AUDITORS' REPORTS  
FOR THE YEARS ENDED  
JUNE 30, 2020 AND 2019**

SPENCER MUNICIPAL HOSPITAL AND  
SPENCER REGIONAL HEALTHCARE FOUNDATION  
TABLE OF CONTENTS

	<u>Page</u>
<b>Board of Trustees and Officials .....</b>	<b>1</b>
<b>Independent Auditors' Report .....</b>	<b>2 - 4</b>
<b>Management's Discussion and Analysis .....</b>	<b>5 - 11</b>
<b>Basic Financial Statements:</b>	
Spencer Municipal Hospital:	
Statements of Net Position .....	12 - 13
Statements of Revenues, Expenses, and Changes in Net Position .....	14
Statements of Cash Flows .....	15 - 16
Spencer Regional Healthcare Foundation:	
Balance Sheets .....	17
Statements of Activities .....	18 - 19
Statements of Functional Expenses .....	20
Statements of Cash Flows .....	21
Notes to Financial Statements - Hospital .....	22 - 45
Notes to Financial Statements - Foundation .....	46 - 56
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule and Related Notes .....	57
Schedule of Proportionate Share of the Net Pension Liability .....	58 - 59
Schedule of Hospital Contributions .....	60
Notes to Required Supplementary Information - Pension Liability .....	61
Schedule of Changes in the Total OPEB Liability, Related Ratios, and Notes .....	62
<b>Supplemental Information:</b>	
	<u>Schedule</u>
Gross Patient Service Revenue .....	1
Net Patient Service Revenue and Other Operating Revenues .....	2
Salaries, Professional Services, and Supplies and Other Expenses .....	3
Patient Receivables and Allowance for Doubtful Accounts .....	4
Inventories and Prepaid Expenses .....	5
	63 - 64
	65
	66 - 68
	69
	70
<b>Other Information:</b>	
Comparative Statistics .....	6
	71
<b>Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Basic Financial Statements performed in Accordance with Government Auditing Standards .....</b>	<b>72 - 73</b>
<b>Schedule of Findings .....</b>	<b>74 - 75</b>

SPENCER MUNICIPAL HOSPITAL  
BOARD OF TRUSTEES AND OFFICIALS  
JUNE 30, 2020

BOARD OF TRUSTEES

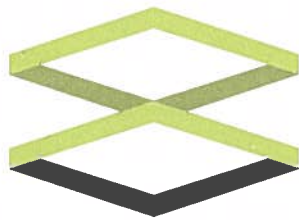
TITLE

TERM EXPIRES

Steve Lensing	Chairman	December 31, 2024
Julie Christensen	Vice Chair	December 31, 2024
Neal Conover	Secretary/Treasurer	December 31, 2021
Gary VanHofwegen, DDS	Trustee	December 31, 2021
Bruce Nystrom	Trustee	December 31, 2024

HOSPITAL OFFICIALS

William Bumgarner	President and Chief Executive Officer
Brenda Tiefenthaler	Vice President of Patient Care Services and Informatics
Susan Zulk	Vice President of Marketing and Fund Development
Stacy Mol	Vice President of Finance and Compliance Officer



**WINTHER STAVE & CO | LLP**  
Certified Public Accountants

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

[www.winther-stave.com](http://www.winther-stave.com)

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351-0187  
Phone 712-338-2488  
FAX 712-338-2510

---

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Spencer Municipal Hospital and  
Board of Directors of  
Spencer Regional Healthcare Foundation  
Spencer, IA 51301

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Spencer Municipal Hospital (Hospital), a component unit of the City of Spencer, Iowa, and Spencer Regional Healthcare Foundation (Foundation), a discretely presented component unit, as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Hospital's and the Foundation's basic financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and for the Hospital, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spencer Municipal Hospital and its discretely presented component unit, Spencer Regional Healthcare Foundation, as of June 30, 2020 and 2019, and the respective changes in their financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Schedule, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Hospital Contributions, and the Schedule of Changes in the Total OPEB Liability, Related Ratios, and Notes on pages 5 through 11 and 57 through 62 be presented to supplement the basic financial statements of the Hospital. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The comparative statistics included in Schedule 6, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Winker, Steve & Co., LLP

December 10, 2020  
Spencer, Iowa

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2020 AND 2019

**Introduction**

Spencer Municipal Hospital, (the Hospital), offers readers of our financial statements this narrative overview and analysis of the financial activities of the Hospital for the fiscal years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Hospital's audited financial statements. The financial statements are composed of the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's financial position.

**Financial Statements**

The Hospital's financial statements report information of the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The statement of net position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. The Hospital does not receive any funding or property tax revenues from the City of Spencer. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
JUNE 30, 2020 AND 2019

**Financial Highlights for 2020**

Spencer Hospital increased its engagement in physician practice operations during fiscal year 2020. On January 1, 2020, Northwest Iowa Bone & Joint Surgeons, PC became a department of the Hospital through a provider-based clinic arrangement. On June 1, 2020, Northwest Iowa Ear, Nose & Throat was purchased by the Hospital.

Financial performance for the fiscal year was down compared to the prior year due to the COVID-19 public health emergency. Service volumes substantially declined in March and April 2020 as elective services were temporarily suspended. Elective services resumed in May and June at volumes approximately 80% of normal levels for the remainder of the fiscal year. Expenses remained consistent with budget, despite reduced service volumes, as the Hospital prepared for a potential surge of COVID-19 patients. No employees were furloughed, as Hospital staff were cross-trained to be prepared to care for COVID-19 patients.

New services added during the year include an Infusion Center as well as an Outreach Specialty Clinic within the hospital. The outreach space is leased to various physician specialty groups to allow for a wider range of services to be offered to our community.

Preparations for a new Electronic Health Record system, Meditech, were advanced during the fiscal year. The new system was scheduled to go live in August 2020 but was delayed to March 2021 due to COVID-19.

- Total assets increased by \$19,079,251.
- Net position increased by \$ 4,560,275.
- Total liabilities and deferred inflows increased by \$ 14,518,976.
- The operating margin for fiscal year 2020 was -1.8%.

**Financial Highlights for 2019**

On July 1, 2018, the Abben Cancer Center became a department of Spencer Municipal Hospital. Spencer Hospital implemented a new approach to our pricing strategy beginning July 1, 2018. This is an ongoing project that reviews our current reimbursement so that our charges are better aligned with our reimbursement. The Hospital's long-term debt obligations were paid in full in December 2018. Financial performance was steady throughout the year.

The Hospital Board approved the transfer of real estate and related cash accounts to the Spencer Regional Healthcare Foundation. These assets had been donated to the Hospital prior to the Foundation's creation. The assets transferred totaled \$4,173,343, of which \$681,935 was cash and \$3,491,408 was agricultural real estate and education loans.

New services added during the year include Outpatient Behavioral Health Clinic Services, Clinic-based Rehab Services, and Physician Spine Clinic.

- Total assets decreased by \$968,064.
- Net position increased by \$1,615,968.
- Total noncurrent cash and investments decreased by \$4,125,385.
- Total liabilities and deferred inflows decreased by \$2,584,032.
- The operating margin for fiscal year 2019 was 4.6%.



SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
JUNE 30, 2020 AND 2019

**Financial Analysis of the Hospital**

The statement of net position and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The statement of net position includes all of the Hospital's assets, liabilities, and deferred outflows and inflows and provides a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

**Condensed Statements of Net Position**

A summary of the Hospital's statements of net position at June 30, 2020, 2019, and 2018 are presented in Table 1 below:

Table 1 (in thousands)

Condensed Statements of Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current and other assets .....	\$ 98,506	\$ 79,326	\$ 74,729
Capital assets .....	52,759	50,444	53,591
Deferred outflows of resources .....	<u>5,515</u>	<u>7,931</u>	<u>10,349</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$156,780</u>	<u>\$137,701</u>	<u>\$138,669</u>
Current liabilities .....	\$ 24,755	\$ 8,751	\$ 9,050
Long-term liabilities .....	18,695	20,387	21,735
Deferred inflows of resources .....	<u>3,962</u>	<u>3,755</u>	<u>4,692</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 47,412</u>	<u>\$ 32,893</u>	<u>\$ 35,477</u>
Invested in capital assets - net of related debt .....	\$ 52,759	\$ 50,444	\$ 52,712
Restricted .....	208	211	1,904
Unrestricted .....	<u>56,401</u>	<u>54,153</u>	<u>48,576</u>
TOTAL NET POSITION	<u>\$109,368</u>	<u>\$104,808</u>	<u>\$103,192</u>

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
JUNE 30, 2020 AND 2019

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

The following table presents a summary of the Hospital's historical revenues, expenses, and changes in net position for each of the fiscal years ended June 30, 2020, 2019, and 2018.

Table 2 (in thousands)

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues .....	\$ 93,645	\$ 98,687	\$ 94,133
Operating expenses .....	<u>95,329</u>	<u>94,130</u>	<u>90,278</u>
Operating income (loss)	(1,684)	4,557	3,855
Nonoperating income .....	<u>5,101</u>	<u>1,032</u>	<u>1,808</u>
Excess of revenues over expenses before contributions	3,417	5,589	5,663
Capital contributions .....	1,143	200	507
Transfer to Foundation .....	-	(4,173)	-
Change in net position	4,560	1,616	6,170
Total net position - beginning of year .....	<u>104,808</u>	<u>103,192</u>	<u>97,022</u>
<b>TOTAL NET POSITION - END OF YEAR</b>	<b><u>\$109,368</u></b>	<b><u>\$104,808</u></b>	<b><u>\$103,192</u></b>

**Operating and Financial Performance**

The following discusses the Hospital's operations and statements of revenue, expenses, and changes in net position as of June 30, 2020, 2019, and 2018.

Volume - Volume statistics are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Inpatient discharges .....	2,178	2,389	2,392
Inpatient days .....	8,112	9,249	9,182
Outpatient visits .....	108,680	123,153	125,619

Net Patient Service Revenue - Our total patient service revenues decreased \$21,611,243 in 2020 and decreased \$1,066,104 in 2019. The significant decrease in net patient revenue is a direct result of the COVID-19 public health emergency. Contractual adjustments are the estimated amounts the Hospital will not collect from Medicare, Medicaid, and insurance companies.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total patient service revenues .....	\$211,477,000	\$233,088,243	\$234,154,347
Contractual and bad debt adjustments .....	(133,753,934)	(149,613,089)	(154,321,266)
Adjustments as percent of revenues .....	<u>63.2%</u>	<u>64.2%</u>	<u>65.9%</u>

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
JUNE 30, 2020 AND 2019

**Operating and Financial Performance - Continued**

The following table presents the relative percentages of gross charges billed for patient services by payor for the years ended June 30, 2020, 2019, and 2018.

Table 3

Payor Mix by Percentage

	Year Ended June 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Medicare .....	50.69%	50.53%	48.81%
Wellmark/Blue Cross/Blue Shield .....	26.98	26.30	27.66
Managed Care/Commercial .....	6.83	7.37	7.37
Medicaid/Managed Care .....	10.08	10.92	11.19
Self-Pay .....	1.35	1.27	1.26
All other .....	<u>4.07</u>	<u>3.61</u>	<u>3.71</u>
<b>TOTAL</b>	<u><b>100.00%</b></u>	<u><b>100.00%</b></u>	<u><b>100.00%</b></u>

Salaries - Salaries increased by \$1,462,039 in 2020 and increased by \$197,718 in 2019. For the fiscal year ended June 30, 2020, the Hospital employed 427 full-time equivalent employees, compared to 430 in 2019 and 434 in 2018. The Hospital is in a competitive wage market and annually utilizes numerous surveys to ensure a competitive compensation package is offered to employees.

Employee Benefits - Benefits increased by \$128,936 in 2020 and decreased by \$490,022 in 2019. The Hospital offers a comprehensive benefit package to its employees. Benefits include but are not limited to health insurance, short and long-term disability, IPERS, and life insurance.

Cash Flows - The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**Capital Assets**

At June 30, 2020, the Hospital had \$131,023,048 invested in capital assets as shown in Table 4. The \$3,416,983 net increase in capital assets for the fiscal year was due in part to the acquisition of the Northwest Iowa Ear, Nose & Throat clinic building. Other construction projects completed during the fiscal year included a new Decedent Care Room, Abben Cancer Center Pharmacy remodel, and floor replacement at Warner Dialysis Spirit Lake. Major equipment purchases included new BBraun Dialysis machines, pediatric endoscopy equipment, a new autoclave, cardiac monitors, a new PACS workstation and server, and network and computer upgrades.

At June 30, 2019, the Hospital had \$127,606,065 invested in capital assets as shown in Table 4. The \$2,520,226 net increase in capital assets for the fiscal year was due in part to the completion of the Warner Dialysis Center which opened in July 2018, completion of additional exam rooms in the Medical Arts Building, Abben pharmacy remodel, and parking lot improvements. Major equipment purchases during the fiscal year included birthing beds, Luxor microscope, surgical instrument sterilizer, urology nephroscopes and laser upgrades, and other operating room equipment.

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
JUNE 30, 2020 AND 2019

**Capital Assets - Continued**

The following table summarizes the Hospital's capital assets as of June 30, 2020, 2019, and 2018.

Table 4

Capital Assets (in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Land .....	\$ 3,186	\$ 2,984	\$ 2,973
Land improvements .....	2,431	2,289	2,113
Buildings .....	65,303	64,479	60,454
Fixed equipment .....	11,883	11,758	11,411
Major movable equipment .....	42,794	45,306	43,528
Construction in progress .....	5,270	790	4,607
Intangibles .....	<u>156</u>	<u>-</u>	<u>-</u>
Subtotal	131,023	127,606	125,086
Less accumulated depreciation .....	<u>78,264</u>	<u>77,162</u>	<u>71,495</u>
 CAPITAL ASSETS - NET	 <u>\$ 52,759</u>	 <u>\$ 50,444</u>	 <u>\$ 53,591</u>

**Performance Compared to Budget**

The following table compares fiscal year 2020 actual to budget information for the statement of revenues, expenses, and changes in net position.

Table 5

Budget vs. Actual (in thousands)

	FY 2020 <u>Budget</u>	FY 2020 <u>Actual</u>	Dollar Variance Favorable (Unfavorable)
Operating revenues .....	\$100,680	\$ 93,645	\$ (7,035)
Operating expenditures .....	<u>96,900</u>	<u>95,329</u>	<u>1,571</u>
Operating income (loss)	3,780	(1,684)	(5,464)
Other nonoperating changes in net position	<u>2,770</u>	<u>6,244</u>	<u>3,474</u>
 Excess of revenues over expenses	 <u>\$ 6,550</u>	 <u>\$ 4,560</u>	 <u>\$ (1,990)</u>

SPENCER MUNICIPAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued  
JUNE 30, 2020 AND 2019

### **Economic and Other Factors and Next Year's Budget**

The Hospital's Board and management considered many factors when setting the fiscal year budgets. Of primary importance in setting the 2021 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare, Medicaid, and Wellmark/Blue Cross Blue Shield reimbursement rates
- Privacy legislation (HIPAA)
- Healthcare reform legislation
- Increased expectations for quality at a lower price
- Ongoing challenges with Medicaid and the private managed care organizations (MCO)
- Workforce shortages
- Cost of supplies and equipment
- Cost of construction projects
- Increasing pharmaceutical costs
- Pharmaceutical shortages
- Increasing insurance deductibles
- Investment market
- Impact of COVID-19 public health emergency on future volumes and reimbursements

### **Community Contributions**

During fiscal years 2020 and 2019, the Hospital contributed much to the communities it serves. Charity care and uncompensated care totaled \$1,672,766 and \$3,128,448, respectively.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. Due to COVID-19, many of these programs were limited during Fiscal Year 2020. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Emergency Services, Home Health and Public Health Programs, Inpatient Behavioral Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Renal Services, Family Practice Clinics in Spencer, Milford and Sioux Rapids, Hospitalist program, and Diabetic Education.

### **Contacting the Hospital's Finance Department**

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. The Hospital's component unit, Spencer Regional Healthcare Foundation, has prepared separate financial statements. If you have questions about the Hospital's report, Foundation's report, or need additional financial information, please contact the finance department at Spencer Municipal Hospital, 1200 First Avenue East, Spencer, Iowa 51301.

**SPENCER MUNICIPAL HOSPITAL  
SPENCER REGIONAL HEALTHCARE FOUNDATION**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2020 AND 2019**

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF NET POSITION  
JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 60,494,086	\$ 42,409,857
Patient receivables - net of allowances for doubtful accounts and contractual adjustments of \$21,693,621 and \$21,173,995, respectively .....	12,877,797	11,586,310
Other receivables .....	1,187,496	1,045,998
Investments .....	17,245,812	18,261,649
Inventories .....	4,602,565	3,590,927
Prepaid expenses .....	<u>1,342,543</u>	<u>1,668,833</u>
TOTAL CURRENT ASSETS	<u>97,750,299</u>	<u>78,563,574</u>
NONCURRENT CASH AND INVESTMENTS:		
Internally designated for noncurrent purposes .....	351,286	321,663
Principal of permanent endowments .....	<u>207,839</u>	<u>210,559</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>559,125</u>	<u>532,222</u>
CAPITAL ASSETS:		
Land .....	3,186,004	2,984,204
Construction in progress .....	5,269,555	790,041
Depreciable property, plant, and equipment .....	<u>122,567,489</u>	<u>123,831,820</u>
TOTAL CAPITAL ASSETS	131,023,048	127,606,065
Less accumulated depreciation and amortization .....	<u>78,264,112</u>	<u>77,161,634</u>
CAPITAL ASSETS - NET	<u>52,758,936</u>	<u>50,444,431</u>
OTHER ASSET:		
Investment in home medical equipment company .....	<u>196,297</u>	<u>229,955</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Pension related deferred outflows .....	5,360,027	7,787,477
OPEB related deferred outflows .....	<u>155,570</u>	<u>143,344</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>5,515,597</u>	<u>7,930,821</u>
 TOTALS	 <u>\$156,780,254</u>	 <u>\$137,701,003</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF NET POSITION - Continued  
JUNE 30, 2020 AND 2019

LIABILITIES AND NET POSITION

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES:		
Accounts payable:		
Trade .....	\$ 3,844,928	\$ 3,988,996
Construction and equipment .....	1,291,000	58,000
Accrued salaries and wages .....	2,863,338	2,361,042
Payroll taxes payable .....	1,047,331	885,129
Estimated third-party payor settlements .....	386,930	386,930
CMS advanced payments .....	12,715,502	-
Refundable advance - provider relief funds .....	1,763,230	-
Other current liabilities .....	843,267	1,070,433
TOTAL CURRENT LIABILITIES	<u>24,755,526</u>	<u>8,750,530</u>
LONG-TERM LIABILITIES:		
Net pension liability .....	18,048,684	19,711,594
Other post-employment benefits .....	646,044	675,368
TOTAL LONG-TERM LIABILITIES	<u>18,694,728</u>	<u>20,386,962</u>
TOTAL LIABILITIES	<u>43,450,254</u>	<u>29,137,492</u>
DEFERRED INFLOWS OF RESOURCES:		
Pension related deferred inflows .....	3,889,244	3,737,992
OPEB related deferred inflows .....	72,389	17,427
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,961,633</u>	<u>3,755,419</u>
NET POSITION:		
Net investment in capital assets .....	52,758,936	50,444,431
Restricted - nonexpendable .....	207,839	210,559
Unrestricted .....	56,401,592	54,153,102
TOTAL NET POSITION	<u>109,368,367</u>	<u>104,808,092</u>
TOTALS	<u>\$156,780,254</u>	<u>\$137,701,003</u>



SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Net patient service revenue .....	\$ 77,723,066	\$ 83,475,154
Provider based clinic revenue .....	12,188,526	10,529,081
Clinic revenue .....	363,370	572,019
Other operating revenues .....	<u>3,370,434</u>	<u>4,110,622</u>
TOTAL OPERATING REVENUES	<u>93,645,396</u>	<u>98,686,876</u>
OPERATING EXPENSES:		
Salaries .....	25,968,455	24,506,416
Employee benefits .....	9,897,872	9,768,936
Professional services .....	23,556,784	23,316,025
Prescription drugs .....	12,572,472	12,071,427
Supplies and other .....	17,807,195	18,678,180
Depreciation and amortization .....	<u>5,526,382</u>	<u>5,788,636</u>
TOTAL OPERATING EXPENSES	<u>95,329,160</u>	<u>94,129,620</u>
OPERATING INCOME (LOSS)	<u>(1,683,764)</u>	<u>4,557,256</u>
NONOPERATING INCOME (EXPENSES):		
Provider relief funds .....	5,326,460	-
Noncapital grants .....	112,629	-
Interest income .....	784,831	1,018,523
Net investment income (loss) .....	(1,025,765)	84,681
Interest expense .....	-	(8,773)
Loss on disposal of capital assets .....	(87,684)	(55,184)
Scholarships granted .....	<u>(9,150)</u>	<u>(7,200)</u>
NET NONOPERATING INCOME	<u>5,101,321</u>	<u>1,032,047</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	3,417,557	5,589,303
CAPITAL CONTRIBUTIONS .....	1,142,718	200,008
TRANSFER TO FOUNDATION .....	<u>-</u>	<u>(4,173,343)</u>
CHANGE IN NET POSITION	4,560,275	1,615,968
NET POSITION - BEGINNING OF YEAR .....	<u>104,808,092</u>	<u>103,192,124</u>
NET POSITION - END OF YEAR	<u>\$109,368,367</u>	<u>\$104,808,092</u>

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors .....	\$101,889,977	\$ 97,464,682
Cash paid to suppliers for goods and services .....	(55,125,878)	(53,398,415)
Cash paid to employees for services .....	(34,272,625)	(34,331,761)
Other operating revenues .....	3,017,007	2,814,264
Other amounts paid .....	<u>(9,150)</u>	<u>(7,200)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>15,499,331</u>	<u>12,541,570</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Provider relief funds received .....	7,089,690	-
Noncapital grants .....	<u>112,629</u>	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>7,202,319</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets .....	(5,891,571)	(3,059,995)
Clinic acquisition .....	(862,155)	-
Proceeds from sale of capital assets .....	-	13,600
Principal payments on long-term debt .....	-	(878,591)
Interest paid on long-term debt .....	-	(12,183)
Capital grants and contributions received .....	<u>1,142,718</u>	<u>200,008</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,611,008)</u>	<u>(3,737,161)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments .....	(3,115,604)	(1,611,522)
Proceeds from sale and maturities of investments .....	2,498,407	962,082
Income on investments .....	1,357,631	1,854,929
Distribution from home medical equipment company .....	245,587	106,310
Transfer to the Foundation .....	-	(681,935)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>986,021</u>	<u>629,864</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,076,663	9,434,273
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....	<u>42,417,762</u>	<u>32,983,489</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 60,494,425</u>	<u>\$ 42,417,762</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF FINANCIAL POSITION:		
Cash and cash equivalents per statements of financial position:		
Current assets .....	\$ 60,494,086	\$ 42,409,857
Included in noncurrent cash and investments .....	<u>339</u>	<u>7,905</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 60,494,425</u>	<u>\$ 42,417,762</u>

See Accompanying Notes to Financial Statements

SPENCER MUNICIPAL HOSPITAL  
STATEMENTS OF CASH FLOWS - Continued  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss) .....	\$ (1,683,764)	\$ 4,557,256
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization .....	5,526,382	5,788,636
Equity in earnings of home medical equipment company .....	(211,929)	(165,987)
Components of non-operating and operating expenses reclassified for purposes of reporting cash flows:		
Scholarships awarded .....	(9,150)	(7,200)
(Increase) decrease in:		
Patient receivables .....	(1,100,487)	1,752,542
Other receivables .....	(141,498)	5,103
Inventories .....	(1,009,338)	(319,823)
Prepaid expenses .....	326,290	(133,902)
Deferred outflows of resources .....	2,415,224	2,417,976
Increase (decrease) in:		
Accounts payable .....	(279,213)	1,025,900
Accrued salaries and wages .....	502,296	16
Payroll taxes payable .....	162,202	(189,777)
Net pension liability .....	(1,662,910)	(1,291,022)
Other liabilities .....	(256,490)	37,770
Estimated amount due to contracting agencies .....	-	412
CMS advanced payments .....	12,715,502	-
Deferred inflows of resources .....	<u>206,214</u>	<u>(936,330)</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 15,499,331</u>	 <u>\$ 12,541,570</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES:		
Capital asset purchases .....	\$ 7,124,571	\$ 2,710,995
Change in construction accounts payable .....	<u>(1,233,000)</u>	<u>349,000</u>
 Cash paid to purchase capital assets	 <u>\$ 5,891,571</u>	 <u>\$ 3,059,995</u>
 Transfer to Foundation .....	 <u>\$ -</u>	 <u>\$ 4,173,343</u>
Less noncash transfers of:		
Agricultural real estate .....		3,481,211
Education loans .....	<u>-</u>	<u>10,197</u>
	<u>-</u>	<u>3,491,408</u>
 Cash transferred to Foundation	 <u>\$ -</u>	 <u>\$ 681,935</u>

See Note 5 for noncash information on clinic acquisition.

SPENCER REGIONAL HEALTHCARE FOUNDATION  
(A Component Unit of Spencer Municipal Hospital)  
BALANCE SHEETS  
JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
UNRESTRICTED ASSETS:		
Cash and cash equivalents .....	\$ 484,717	\$ 364,878
Accrued interest receivable .....	17,290	20,043
Investments .....	<u>10,301,692</u>	<u>10,744,715</u>
TOTAL UNRESTRICTED ASSETS	<u>10,803,699</u>	<u>11,129,636</u>
ENDOWMENT ASSETS:		
Cash .....	62,821	59,294
Investments .....	6,302,868	6,126,272
Pledges - net .....	76,579	127,098
Beneficial interest in community foundation fund .....	<u>462,803</u>	<u>465,618</u>
TOTAL ENDOWMENT ASSETS	<u>6,905,071</u>	<u>6,778,282</u>
OTHER ASSETS:		
Cash restricted by donor .....	26,078	26,643
Education loans .....	<u>7,052</u>	<u>5,469</u>
TOTAL OTHER ASSETS	<u>33,130</u>	<u>32,112</u>
 TOTAL ASSETS	 <u>\$17,741,900</u>	 <u>\$17,940,030</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Due to Spencer Hospital .....	\$ 1,620	\$ 65,015
Amounts held on behalf of others .....	652,326	1,505,335
Endowment funds held on behalf of others .....	6,048,137	6,055,036
Annuities payable .....	<u>8,984</u>	<u>9,993</u>
TOTAL LIABILITIES	<u>6,711,067</u>	<u>7,635,379</u>
NET ASSETS:		
Without donor restrictions .....	10,997,703	10,272,539
With donor restrictions .....	<u>33,130</u>	<u>32,112</u>
TOTAL NET ASSETS	<u>11,030,833</u>	<u>10,304,651</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$17,741,900</u>	 <u>\$17,940,030</u>

SPENCER REGIONAL HEALTHCARE FOUNDATION  
(A Component Unit of Spencer Municipal Hospital)  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020 WITH COMPARATIVE TOTALS FOR 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
OPERATING SUPPORT:				
Contributions:				
Gifts and bequests .....	\$ 55,779	\$139,457	\$ 195,236	\$ 191,118
Community Foundation .....	-	24,881	24,881	22,398
Donated services and expenses .....	150,500	-	150,500	128,773
Donation from Spencer Hospital .....	-	-	-	4,173,343
Total contributions	206,279	164,338	370,617	4,515,632
Adjustments:				
Amounts raised on behalf of others .....	-	(144,946)	(144,946)	(135,664)
Endowment funds raised on behalf of others .....	-	6,889	6,889	(21,413)
Community Foundation transfers .	-	(24,881)	(24,881)	(22,398)
Endowment funds from Spencer Hospital .....	-	-	-	(4,137,518)
Contributions - net	206,279	1,400	207,679	198,639
Net assets released from restrictions .	500	(500)	-	-
TOTAL OPERATING SUPPORT	206,779	900	207,679	198,639
OPERATING EXPENSES:				
Program services .....	82,672	-	82,672	216,878
Management and general .....	90,991	-	90,991	78,670
Fundraising .....	59,800	-	59,800	50,394
TOTAL OPERATING EXPENSES	233,463	-	233,463	345,942
OPERATING INCOME (LOSS)	(26,684)	900	(25,784)	(147,303)
NONOPERATING ACTIVITIES:				
Investment return .....	751,848	118	751,966	993,099
CHANGE IN NET ASSETS	725,164	1,018	726,182	845,796
NET ASSETS - BEGINNING OF YEAR	10,272,539	32,112	10,304,651	9,458,855
NET ASSETS - END OF YEAR	\$10,997,703	\$ 33,130	\$11,030,833	\$10,304,651

SPENCER REGIONAL HEALTHCARE FOUNDATION  
(A Component Unit of Spencer Municipal Hospital)  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT:			
Contributions:			
Gifts and bequests .....	\$ 33,891	\$ 157,227	\$ 191,118
Community Foundation .....	-	22,398	22,398
Donated services and expenses .....	128,773	-	128,773
Donation from Spencer Hospital .....	-	4,173,343	4,173,343
Total contributions	162,664	4,352,968	4,515,632
Adjustments:			
Amounts raised on behalf of others .....	-	(135,664)	(135,664)
Endowment funds raised on behalf of others .....	-	(21,413)	(21,413)
Community Foundation transfers .....	-	(22,398)	(22,398)
Endowment funds from Spencer Hospital .....	-	(4,137,518)	(4,137,518)
Contributions - net	162,664	35,975	198,639
Net assets released from restrictions .....	4,007	(4,007)	-
TOTAL OPERATING SUPPORT	166,671	31,968	198,639
OPERATING EXPENSES:			
Program services .....	216,878	-	216,878
Management and general .....	78,670	-	78,670
Fundraising .....	50,394	-	50,394
TOTAL OPERATING EXPENSES	345,942	-	345,942
OPERATING INCOME (LOSS)	(179,271)	31,968	(147,303)
NONOPERATING ACTIVITIES:			
Investment return .....	992,955	144	993,099
CHANGE IN NET ASSETS	813,684	32,112	845,796
NET ASSETS - BEGINNING OF YEAR .....	9,458,855	-	9,458,855
NET ASSETS - END OF YEAR	\$10,272,539	\$ 32,112	\$10,304,651

SPENCER REGIONAL HEALTHCARE FOUNDATION  
(A Component Unit of Spencer Municipal Hospital)  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Annuity expense .....	\$ -	\$ 291	\$ -	\$ 291
Charitable disbursements to Spencer Hospital .....	82,172	-	-	82,172
Dues and subscriptions .....	-	220	119	339
Education .....	-	320	-	320
Legal and professional .....	-	9,153	-	9,153
Postage .....	-	-	384	384
Purchased services .....	-	2,997	-	2,997
Salaries and benefits .....	-	77,355	53,179	130,534
Scholarships .....	500	-	-	500
Supplies .....	-	655	6,118	6,773
TOTAL	<u>\$ 82,672</u>	<u>\$ 90,991</u>	<u>\$ 59,800</u>	<u>\$233,463</u>

	2019			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Annuity expense .....	\$ -	\$ 291	\$ -	\$ 291
Charitable disbursements to Spencer Hospital .....	212,871	-	-	212,871
Dues and subscriptions .....	-	330	650	980
Education .....	-	417	-	417
Education loan impairment .....	3,507	-	-	3,507
Legal and professional .....	-	7,917	-	7,917
Postage .....	-	-	2,767	2,767
Purchased services .....	-	-	1,332	1,332
Salaries and benefits .....	-	68,421	45,525	113,946
Scholarships .....	500	-	-	500
Supplies .....	-	1,294	120	1,414
TOTAL	<u>\$216,878</u>	<u>\$ 78,670</u>	<u>\$ 50,394</u>	<u>\$345,942</u>

SPENCER REGIONAL HEALTHCARE FOUNDATION  
(A Component Unit of Spencer Municipal Hospital)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets .....	\$ 726,182	\$ 845,796
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net appreciation in fair value of investments .....	(90,246)	(560,381)
Net realized gains on sale of investments .....	(190,109)	(46,832)
Net investment gain of community foundation fund .....	(17,066)	(8,527)
Noncash contribution of education loans .....	-	(10,197)
Education loan impairment .....	-	3,507
Decrease in estate gift receivable .....	-	10,000
(Increase) decrease in accrued interest receivable .....	2,753	(188)
Increase (decrease) in charitable disbursement payable .....	(63,395)	64,123
Contributions restricted for education loans .....	-	(18,316)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>368,119</u>	<u>278,985</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments .....	(2,218,283)	(977,522)
Proceeds from sale of investments .....	2,886,876	776,227
Purchase of endowment investments .....	(126,811)	(802,304)
Proceeds on sale of endowment investments .....	24,881	22,398
Collection of endowment pledges .....	15,965	95,618
Education loan advances .....	(2,000)	-
Education loan repayments .....	417	1,221
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>581,045</u>	<u>(884,362)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received on behalf of others and transferred from Spencer Hospital .....	144,946	135,664
Transfer of assets to specified beneficiaries .....	(997,955)	(44,144)
Reduction of endowment funds held on behalf of others .....	(15,965)	(95,618)
Proceeds of endowment contributions received on behalf of others .....	43,620	777,222
Contributions for education loans .....	-	18,316
Annuity payments .....	(1,009)	(1,009)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(826,363)</u>	<u>790,431</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	122,801	185,054
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>450,815</u>	<u>265,761</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 573,616</u>	<u>\$ 450,815</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Noncash investing and financing transaction:		
Endowment pledges and funds held on behalf of others adjustments.....	<u>\$ 34,554</u>	<u>\$ 3,884</u>
Agricultural real estate received from Spencer Hospital .....	<u>\$ -</u>	<u>\$3,481,211</u>
Reconciliation of cash to the balance sheets:		
Unrestricted .....	\$ 484,717	\$ 364,878
Endowment .....	62,821	59,294
Restricted .....	<u>26,078</u>	<u>26,643</u>
Total	<u>\$ 573,616</u>	<u>\$ 450,815</u>

See Accompanying Notes to Financial Statements



SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Spencer Municipal Hospital (Hospital) is a city public hospital organized under Chapter 392 of the Code of Iowa and is considered a component unit of the City of Spencer, Iowa. It is not subject to taxes on income or certain property. The Hospital is governed by a five-member Board of Trustees elected by the residents of Spencer for terms of four years. The Hospital provides primary and secondary health care services through the operation of an acute care hospital in Spencer, Iowa, medical clinics, and other comprehensive health care programs. The majority of the Hospital's patients are from Spencer and northwest Iowa.

**Reporting Entity**

For financial reporting purposes, the Hospital has included all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. In accordance with Governmental Accounting Standards Board (GASB), the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital.

Spencer Regional Healthcare Foundation (Foundation) is a legally separate Iowa nonprofit corporation. It is organized under the provisions of Internal Revenue Code (Code) Section 501(c)(3). The Foundation's purpose is to solicit, receive, and manage gifts for charitable, educational, and scientific purposes in a manner that benefits or supports the delivery of medical and health care services to persons in the region served by the Hospital and its affiliates. Although the Hospital does not appoint a voting majority of the Foundation's board or control the Foundation or the timing or amount of donations from the Foundation, the majority of its resources, or income thereon, are donor restricted to the activities of the Hospital. Accordingly, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Hospital. Its financial statements are separately presented on pages 17 through 21 and its notes to financial statements are separately presented on pages 46 through 56.

Avera Home Medical Equipment of Spencer Hospital, LLC (HME) is a legally separate limited liability company that the Hospital and Avera Home Medical Equipment, LLC formed in 2010. Each member owns 50% of HME and has an equal number of voting managers on its management committee. Due to the Hospital's lack of control over HME, it is not considered a component unit of the Hospital. HME sells home medical equipment from a retail location in Spencer.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting as prescribed by the GASB where revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus.

The Foundation's financial statements and related disclosures are prepared in accordance with GAAP as prescribed for nonprofit organizations by the Financial Accounting Standards Board.

**Basis of Presentation**

The statement of net position displays the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories/components:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and amortization.

*Restricted nonexpendable* consists of the principal portion of permanent endowments.

*Unrestricted* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management or the Board of Trustees which can be removed or modified.

When both restricted and unrestricted net position are available for use, generally it is the Hospital's policy to use restricted net position first.

**Reclassifications**

Certain amounts in the 2019 statements have been reclassified to conform to 2020's presentation.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, savings accounts, money market mutual funds, and all other highly liquid investments (including restricted assets) with original maturities of three months or less are considered cash equivalents.

**Patient Receivables - Net**

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. Unpaid patient receivables are not charged interest on amounts owed. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest claim.

Patient receivables are reduced by an estimated allowance for uncollectible accounts. In evaluating the collectability of patient receivables, the Hospital analyzes their past history and identifies trends for each of their major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provide an allowance for uncollectible accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), a significant provision for bad debts in the period of service on the basis of its past experience is recorded, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

**Inventory**

Inventory is valued at the lower of cost or market using the first-in, first-out method and is expensed when used. Inventory consists primarily of patient supplies, including pharmaceuticals and operating supplies.

**Noncurrent Cash and Investments and Fair Value**

Noncurrent cash and investments include permanently endowed funds and assets set aside by the Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Permanent endowments require that the principal be retained in perpetuity.

Investments in marketable securities are carried at fair value based on quoted market prices.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Capital Assets**

Capital assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets in accordance with the guidelines set forth by the American Hospital Association. Lives for the buildings and land improvements are five to fifty years, while lives for equipment range from three to twenty years, and lives for intangibles are five years.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value.

**Other Assets**

The Hospital's investment in HME is accounted for by using the equity method, where the Hospital records its share of the earnings or losses.

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position applicable to a future year(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the Hospital after the measurement date but before the end of the Hospital's reporting period.

**Compensated Absences**

Hospital employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The compensated absences liability has been computed using pay rates in effect at June 30, 2020 and 2019. The cost of paid leave is recorded as a current liability in the statement of position and totaled \$1,892,803 and \$1,788,423 at June 30, 2020 and 2019, respectively.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported as fair value.

**Total OPEB Liability**

For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the Hospital's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of the unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on IPERS' investments and the calculation of OPEB.

**Revenues, Expenses and Changes in Net Position**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Operating expenses are all expenses incurred to provide health care services. Non-exchange income, including earnings on investments and noncapital grants, are reported as nonoperating income. Contributions restricted to capital acquisitions are reported after income before contributions and transfers.

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectable accounts. The Hospital has agreements with third-party payors that provide for payments at amounts different from their established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of uninsured patients will be unable or unwilling to pay for the services provided. As a result, a provision for bad debts related to uninsured patients is recorded in the period the services are provided.

**Interest and Net Investment Income (Loss)**

Interest and investment income (loss) are recorded as nonoperating income and represent the net investment income or loss earned on the Hospital's various investments. Investment income includes dividends, net rental income, and realized and unrealized gains and losses on equity securities, net of investment expenses.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Charity Care and Community Benefits**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity it provides. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The amount of charges forgone, based on established rates, for 2020 and 2019, were \$720,720 and \$548,856, respectively. The costs of charity care are estimated to be \$230,000 and \$169,000 for 2020 and 2019, respectively. Costs are estimated by using the most recent cost to charge ratio available at the end of the year.

The Hospital provides many services that are operated at a loss for the benefit of the communities it serves. Many of these programs are offered at no cost; a few are offered for a minimal service fee. These services are sponsored with the knowledge that they are not self-supporting or financially viable. Services offered for the benefit of these communities include: emergency services coverage at community events, wellness screenings, job shadowing/internships, various health education classes, public safety awareness programs, support groups, and providing the use of facilities to community groups.

In addition, many routine services are provided by the Hospital at a loss. These include: Ambulance Services, Cardiac/Pulmonary Rehabilitation, Emergency Services, Home Health and Public Health Programs, Inpatient Behavioral Health, Best Care for Better Babies, Women's Health, Rehabilitation Services (Physical, Occupational, and Speech), Renal Services, Family Practice Clinics in Spencer, Milford and Sioux Rapids, Hospitalist program, and Diabetic Education.

**Income Taxes**

The Hospital is considered a local governmental instrumentality in accordance with the Code of Iowa. As such, the Hospital is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code.

**Management's Review**

In preparation of the financial statements, management has evaluated subsequent events through December 10, 2020, which is the date the financial statements were available to be issued.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

## 2. CURRENT AND NONCURRENT CASH AND INVESTMENTS

### **Current and Noncurrent Investments**

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees of the Hospital; prime eligible bankers acceptances; certain high rated commercial paper; debt securities; perfected repurchase agreements; certain registered open-end management investment companies (mutual funds); certain joint investment trusts; investments in common stocks including ETFs; and warrants or improvement certificates of a drainage district.

The Hospital's investment policy also limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Hospital.

### **Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that a depository institution fails and it may not return the Hospital's deposits. The Hospital's deposits at June 30, 2020 and 2019 were entirely covered by FDIC or SIPC insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against members of the pool to insure there will be no loss of public funds.

### **Credit Risk**

Credit risk is the risk that an issuer or counterparty will not fulfill their obligation to the Hospital. The Hospital minimizes credit risk by limiting securities to those authorized in the investment policy; diversifying the investment portfolio to limit the impact of potential losses from any one type of security or individual issuer; and prequalifying the financial institutions, brokers, dealers, and advisers with whom the Hospital does business.

### **Concentration Risk**

Concentration risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security or single issuer. The Hospital diversifies its investment portfolios to minimize the impact of potential losses from one type of security or issuer. Portfolio maturities are staggered to avoid undue concentration of assets within a specific maturity period, which provides for stability of income and reasonable liquidity. No single investment issuer represents 5% or more of total Hospital investments.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the Hospital investments. The Hospital minimizes interest rate risk by structuring investment portfolios so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**2. CURRENT AND NONCURRENT CASH AND INVESTMENTS - Continued**

The Hospital's cash and investments at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents .....	\$60,494,425	\$42,417,762
Marketable securities .....	<u>17,804,598</u>	<u>18,785,966</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$78,299,023</u>	 <u>\$61,203,728</u>

The cash and investments shown above are included in the Hospital's statements of net position as follows:

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents .....	\$60,494,086	\$42,409,857
Marketable securities .....	<u>17,245,812</u>	<u>18,261,649</u>
Subtotal	<u>77,739,898</u>	<u>60,671,506</u>
Noncurrent cash and investments:		
Cash and cash equivalents .....	339	7,905
Marketable securities .....	<u>558,786</u>	<u>524,317</u>
Subtotal	<u>559,125</u>	<u>532,222</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$78,299,023</u>	 <u>\$61,203,728</u>

Marketable securities are carried at fair value. The net unrealized gains (loss) on investments at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Marketable securities .....	<u>\$ (1,133,983)</u>	<u>\$ 477,929</u>

Net investment income (loss) consists of the following:

	<u>2020</u>	<u>2019</u>
Unrealized loss on marketable securities .....	\$ (1,611,912)	\$ (756,528)
Realized gains on marketable securities .....	13,347	4,803
Dividend income .....	516,524	701,438
Rental income - net of expenses .....	<u>56,276</u>	<u>134,968</u>
 NET INVESTMENT INCOME (LOSS)	 <u>\$ (1,025,765)</u>	 <u>\$ 84,681</u>



SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**2. CURRENT AND NONCURRENT CASH AND INVESTMENTS - Continued**

The Hospital's investments are reported at fair value. Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs where there is little or no market data and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 investments are valued at quoted market prices for identical assets.

The Hospital had the following investments at June 30, 2020 and June 30, 2019:

	<u>2020</u>	<u>2019</u>
<u>Investment:</u>		
Mutual funds and ETFs (Level 1) .....	\$13,867,162	\$13,593,480
Debt securities (Level 1) .....	<u>3,937,436</u>	<u>5,192,486</u>
 TOTAL INVESTMENTS	 <u>\$17,804,598</u>	 <u>\$18,785,966</u>

The following table provides information about the sensitivity of the fair values of the Hospital's debt securities to market interest rate fluctuations as of June 30, 2020 and 2019:

<u>Debt Security Type</u>	<u>Fair Value</u>	<u>June 30, 2020 Remaining Maturities</u>		
		<u>1 Year or Less</u>	<u>1 to 5 Years</u>	<u>Beyond 5 Years</u>
Brokered certificates of deposit	\$2,551,863	\$ 325,489	\$2,226,374	\$ -
Municipal bonds .....	<u>1,385,573</u>	<u>-</u>	<u>917,093</u>	<u>468,480</u>
Totals	<u>\$3,937,436</u>	<u>\$ 325,489</u>	<u>\$3,143,467</u>	<u>\$468,480</u>

<u>Debt Security Type</u>	<u>Fair Value</u>	<u>June 30, 2019 Remaining Maturities</u>		
		<u>1 Year or Less</u>	<u>1 to 5 Years</u>	<u>Beyond 5 Years</u>
Brokered certificates of deposit	\$3,798,778	\$1,371,112	\$2,427,666	\$ -
Municipal bonds .....	<u>1,393,708</u>	<u>-</u>	<u>539,896</u>	<u>853,812</u>
Totals	<u>\$5,192,486</u>	<u>\$1,371,112</u>	<u>\$2,967,562</u>	<u>\$853,812</u>

The bond ratings for the municipal bonds ranged from Aaa to Aa3 from Moody's and AAA to AA- from S&P. The brokered certificates of deposit and the bond mutual fund were not rated.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**3. NET PATIENT SERVICE REVENUE**

As a provider of health care services, the Hospital has agreements with third-party payors that provide for payment of services at amounts different from established rates. The basis for payment varies by payor and includes prospectively determined rates per discharge, discounts from established charges, and retroactively determined cost-based rates. Approximately 95 percent of the Hospital's gross patient charges determined at established rates for the years ended June 30, 2020 and 2019 resulted from patients covered by these third-party reimbursement programs. Significant changes have been made and may be made in certain of these programs which could have a material adverse impact on the financial condition in future years.

The following summarizes the differences between gross patient service revenue determined at established rates and net patient service revenue:

	Hospital	
	<u>2020</u>	<u>2019</u>
Gross patient service revenue - at established rates ....	<u>\$211,477,000</u>	<u>\$233,088,243</u>
Adjustments:		
Medicare program .....	84,359,526	88,924,074
Medicaid program .....	15,080,624	22,351,438
Blue Cross/Wellmark .....	26,953,656	29,424,860
Other payors .....	5,687,362	5,784,269
Charity care .....	720,720	548,856
Bad debts .....	<u>952,046</u>	<u>2,579,592</u>
Total Adjustments	<u>133,753,934</u>	<u>149,613,089</u>
Net Patient Service Revenue	<u>\$ 77,723,066</u>	<u>\$ 83,475,154</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**4. PATIENT RECEIVABLES - NET**

The Hospital grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2020 and 2019 was:

	<u>2020</u>	<u>2019</u>
Medicare .....	\$12,194,219	\$13,432,029
Medicaid program .....	4,345,842	2,807,644
Blue Cross/Wellmark .....	7,318,687	6,907,230
Other payors .....	8,950,043	8,692,000
Provider based clinics .....	<u>1,762,627</u>	<u>921,402</u>
Total patient receivables	34,571,418	32,760,305
Less allowance for doubtful accounts and contractual adjustments .....	<u>21,693,621</u>	<u>21,173,995</u>
 Patient Receivables - Net	 <u>\$12,877,797</u>	 <u>\$11,586,310</u>

**5. CAPITAL ASSETS**

A summary of the changes in capital assets for 2020 and 2019 is as follows:

	<u>Year Ended June 30, 2020</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Transfers - Net</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land .....	\$ 2,984,204	\$ 201,800	\$ -	\$ 3,186,004
Construction in progress .....	<u>790,041</u>	<u>6,582,936</u>	<u>(2,103,422)</u>	<u>5,269,555</u>
Total capital assets not being depreciated	<u>3,774,245</u>	<u>6,784,736</u>	<u>(2,103,422)</u>	<u>8,455,559</u>
Other capital assets:				
Land improvements .....	2,289,447	76,181	65,760	2,431,388
Buildings .....	64,478,760	336,886	487,296	65,302,942
Fixed equipment .....	11,758,313	110,325	14,853	11,883,491
Major moveable equipment .....	45,305,300	464,443	(2,976,075)	42,793,668
Intangibles .....	<u>-</u>	<u>156,000</u>	<u>-</u>	<u>156,000</u>
Total other capital assets	<u>123,831,820</u>	<u>1,143,835</u>	<u>(2,408,166)</u>	<u>122,567,489</u>
Total capital assets	<u>127,606,065</u>	<u>7,928,571</u>	<u>(4,511,588)</u>	<u>131,023,048</u>
Less accumulated depreciation/amortization for:				
Land improvements .....	1,432,636	90,728	-	1,523,364
Buildings .....	29,485,107	2,346,270	(331,839)	31,499,538
Fixed equipment .....	9,322,330	457,743	(31,975)	9,748,098
Major moveable equipment .....	36,921,561	2,629,041	(4,060,090)	35,490,512
Intangibles .....	<u>-</u>	<u>2,600</u>	<u>-</u>	<u>2,600</u>
Total accumulated depreciation/amortization	<u>77,161,634</u>	<u>5,526,382</u>	<u>(4,423,904)</u>	<u>78,264,112</u>
 CAPITAL ASSETS - NET	 <u>\$ 50,444,431</u>	 <u>\$ 2,402,189</u>	 <u>\$ (87,684)</u>	 <u>\$ 52,758,936</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**5. CAPITAL ASSETS - Continued**

	Year Ended June 30, 2019			
	Beginning Balance	Additions	Disposals and Transfers - Net	Ending Balance
Capital assets not being depreciated:				
Land .....	\$ 2,973,204	\$ 11,000	\$ -	\$ 2,984,204
Construction in progress .....	<u>4,607,039</u>	<u>2,149,759</u>	<u>(5,966,757)</u>	<u>790,041</u>
Total capital assets not being depreciated	<u>7,580,243</u>	<u>2,160,759</u>	<u>(5,966,757)</u>	<u>3,774,245</u>
Other capital assets:				
Land improvements .....	2,112,743	15,252	161,452	2,289,447
Buildings .....	60,453,993	93,855	3,930,912	64,478,760
Fixed equipment .....	11,410,640	59,291	288,382	11,758,313
Major moveable equipment .....	<u>43,528,220</u>	<u>381,838</u>	<u>1,395,242</u>	<u>45,305,300</u>
Total other capital assets	<u>117,505,596</u>	<u>550,236</u>	<u>5,775,988</u>	<u>123,831,820</u>
Total capital assets	<u>125,085,839</u>	<u>2,710,995</u>	<u>(190,769)</u>	<u>127,606,065</u>
Less accumulated depreciation for:				
Land improvements .....	1,349,722	82,914	-	1,432,636
Buildings .....	27,165,918	2,319,189	-	29,485,107
Fixed equipment .....	8,866,852	455,478	-	9,322,330
Major moveable equipment .....	<u>34,112,491</u>	<u>2,931,055</u>	<u>(121,985)</u>	<u>36,921,561</u>
Total accumulated depreciation	<u>71,494,983</u>	<u>5,788,636</u>	<u>(121,985)</u>	<u>77,161,634</u>
CAPITAL ASSETS - NET	<u>\$ 53,590,856</u>	<u>\$ (3,077,641)</u>	<u>\$ (68,784)</u>	<u>\$ 50,444,431</u>

Effective June 1, 2020, the Hospital acquired certain assets of a physician's clinic located near the Hospital's Spencer campus. The acquisition was accounted for as a purchase with the price allocated to the assets based upon their appraised fair values at the purchase date. The purchase price allocation and cash paid consisted of the following:

Tangible capital assets .....	\$ 648,000
Intangible capital assets .....	<u>156,000</u>
Total capital assets	804,000
Operating assets .....	<u>193,300</u>
Total assets acquired	997,300
Less liabilities assumed .....	<u>(135,145)</u>
Cash paid	<u>\$ 862,155</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

## 6. PENSION PLAN

### Plan Description

Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

### Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire if they are a vested member, no longer working for an IPERS-covered employer, and are 55 years old or retire because of a disability and are eligible for Regular disability benefits or Special Service disability benefits. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**6. PENSION PLAN - Continued**

**Disability and Death Benefits**

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**Contributions**

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

The contribution rates as a percent of pay and the total contribution for 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Regular members' rates .....	6.29%	6.29%
Hospital rates .....	<u>9.44</u>	<u>9.44</u>
Total	<u>15.73%</u>	<u>15.73%</u>
Protection occupation members' rates .....	6.61%	6.81%
Hospital rates .....	<u>9.91</u>	<u>10.21</u>
Total	<u>16.52%</u>	<u>17.02%</u>
Hospital's Total Contributions	<u>\$2,343,594</u>	<u>\$2,288,463</u>

**Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2020 and 2019, the Hospital reported a liability of \$18,048,684 and \$19,711,594 respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Hospital's proportion was .3116863%, which was an increase of .0002% from its proportion measured as of June 30, 2018.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**6. PENSION PLAN - Continued**

**Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued**

For the years ended June 30, 2020 and 2019, the Hospital recognized pension expense of \$3,272,619 and \$2,449,984, respectively. The Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020 Deferred Outflows of Resources	2020 Deferred Inflows of Resources	2019 Deferred Outflows of Resources	2019 Deferred Inflows of Resources
Differences between expected and actual experience .....	\$ 53,055	\$ 651,691	\$ 109,339	\$ 449,664
Changes of assumptions .....	1,967,992	1,213	2,866,370	1,957
Net difference between projected and actual earnings on IPERS' investments .....	872,778	2,955,499	2,355,042	2,912,731
Changes in proportion and differences between Hospital contributions and the Hospital's proportionate share of contributions	122,608	280,841	168,263	373,640
Hospital contributions subsequent to the measurement date .....	<u>2,343,594</u>	<u>-</u>	<u>2,288,463</u>	<u>-</u>
Total	<u>\$5,360,027</u>	<u>\$3,889,244</u>	<u>\$7,787,477</u>	<u>\$3,737,992</u>

Deferred outflows of resources related to pensions of \$2,343,594 and \$2,288,463 represent the amount the Hospital contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2020 and 2019, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>2020 Amount</u>	<u>2019 Amount</u>
2020	\$ -	\$1,274,541
2021	364,743	698,547
2022	(471,983)	(145,781)
2023	(365,767)	(37,833)
2024	(356,423)	(28,452)
2025	<u>(43,381)</u>	<u>-</u>
Total	<u>\$ (872,811)</u>	<u>\$1,761,022</u>

There were no non-employer contributing entities at IPERS.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**6. PENSION PLAN - Continued**

**Actuarial Assumptions**

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum
Rates of salary increases (effective June 30, 2017)	3.25% to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 2017)	3.25% per annum based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	<u>3.0</u>	3.01
Total	<u>100.0%</u>	



SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**6. PENSION PLAN - Continued**

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease <u>6.0%</u>	Discount Rate <u>7.0%</u>	1% Increase <u>8.0%</u>
Hospital's proportionate share of the net pension liability - June 30, 2020 .....	\$32,353,552	\$18,048,684	\$6,050,299

	1% Decrease <u>6.0%</u>	Discount Rate <u>7.0%</u>	1% Increase <u>8.0%</u>
Hospital's proportionate share of the net pension liability - June 30, 2019 .....	\$33,669,991	\$19,711,594	\$7,884,848

**Pension Plan Fiduciary Net Position**

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**Payables to the Pension Plan**

At June 30, 2020 and 2019, the Hospital reported payables to IPERS of \$-0- and \$175,958, respectively, for legally required employer contributions and \$-0- and \$117,245, respectively, for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**7. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

The Hospital administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**7. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

**OPEB Benefits**

Individuals who are employed by the Hospital and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay substantially the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. Employees covered by the benefit terms at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Inactive employees or beneficiaries currently receiving benefit payments .....	4	4
Active employees .....	<u>458</u>	<u>471</u>
Total	<u>462</u>	<u>475</u>

**Total OPEB Liability**

The Hospital's total OPEB liability of \$646,044 and \$675,368 was measured as of June 30, 2020 and 2019, respectively, and was determined by an actuarial valuation as of January 1, 2020 and 2018, respectively.

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation (as of January 1, 2020)	3.00% per annum
Rate of salary increase (as of January 1, 2020)	3.00% per annum including inflation
Discount rate (effective January 1, 2020)	2.74% compounded annually, including inflation.
Healthcare cost trend rate (effective June 30, 2020)	5% annually

**Discount Rate**

The discount rate used to measure the total OPEB liability was 2.74% which reflects the index rate for 20-year tax -exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of January 1, 2020.

Mortality rates were based on the RP 2014 annuitant distinct mortality table adjusted to 2006 with MP 2019 generational projection of future mortality improvement.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**7. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

**Changes in the Total OPEB Liability**

	<u>2020</u>	<u>2019</u>
Total OPEB liability beginning of year .....	\$675,368	\$732,640
Changes for the year:		
Service cost .....	36,068	35,920
Interest .....	17,971	24,415
Differences between expected and actual experiences ...	(65,575)	(19,633)
Changes in assumptions .....	37,854	-
Benefit payments .....	(55,642)	(97,974)
Net changes	<u>(29,324)</u>	<u>(57,272)</u>
Total OPEB Liability - End of Year	<u>\$646,044</u>	<u>\$675,368</u>

**Sensitivity of the Hospital's Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the Hospital, as well as what the Hospital's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (1.74%) or 1% higher (3.74%) than the current discount rate.

	1% Decrease (1.74%)	Discount Rate (2.74%)	1% Increase (3.74%)
<u>Total OPEB Liability</u>			
June 30, 2020 .....	<u>\$704,154</u>	<u>\$646,044</u>	<u>\$594,665</u>
	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
<u>Total OPEB Liability</u>			
June 30, 2019 .....	<u>\$721,455</u>	<u>\$675,368</u>	<u>\$634,412</u>

**Sensitivity of the Hospital's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the total OPEB liability of the Hospital as what the Hospital's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (4.00%) or 1% higher (6.00%) than the current healthcare cost trend rates.

	1% Decrease (4.0%)	Healthcare Cost Trend Rate (5.0%)	1% Increase (6.0%)
<u>Total OPEB Liability</u>			
June 30, 2020 .....	<u>\$583,086</u>	<u>\$646,044</u>	<u>\$719,152</u>
June 30, 2019 .....	<u>\$624,976</u>	<u>\$675,368</u>	<u>\$733,426</u>

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**7. OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

**OPEB Expense and Deferred Outflows of Resources Related to OPEB**

For the years ended June 30, 2020 and 2019, the Hospital recognized OPEB expense of \$69,054 and \$78,904, respectively. The Hospital reported deferred outflows/inflows of resources related to OPEB from the following resources at June 30, 2020 and 2019:

	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences between expected and actual experience .....	\$ 95,426	\$ 72,389	\$111,600	\$ 17,427
Changes in assumptions .....	<u>60,144</u>	<u>-</u>	<u>31,744</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>\$155,570</u>	<u>\$ 72,389</u>	<u>\$143,344</u>	<u>\$ 17,427</u>

The amounts reported as net deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>2020</u>	<u>2019</u>
2020	\$ -	\$ 18,569
2021	15,015	18,569
2022	15,015	18,569
2023	15,015	18,569
2024	15,015	18,569
2025	15,015	18,569
Thereafter	<u>8,106</u>	<u>14,503</u>
Total	<u>\$ 83,181</u>	<u>\$125,917</u>

**8. CONTINGENCIES**

**Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health and accident benefits. Certain of these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**8. CONTINGENCIES - Continued**

**Health Benefits**

The Hospital has established an Employee Health Insurance Plan that self insures health benefits. Self-insurance is in effect up to a specific stop loss amount of \$80,000 per individual and an aggregate stop loss amount of approximately \$7.2 million. Coverage from private insurance companies is maintained for losses in excess of the aggregate stop loss amount up to a maximum of \$1,000,000 per policy period. Claims handling procedures are performed by an independent claims administrator. Losses are accrued based upon the Hospital's estimates of the aggregate liability for claims incurred using certain assumptions followed in the insurance industry and based on the Hospital's experience. The amounts of unpaid claims included in the financial statements were \$614,000 and \$849,786 at June 30, 2020 and 2019, respectively, and are included in other current liabilities.

**Unemployment Compensation**

The Hospital is self-insured for unemployment compensation claims. Unemployment is charged quarterly as the state assesses the Hospital based upon actual claims paid.

**Litigations, Claims, and Other Disputes**

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

**COVID-19 Pandemic**

During 2020, the world-wide COVID-19 pandemic impacted national and global economies. The Hospital is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Hospital is not known.

**9. RELATED PARTY TRANSACTIONS**

**Board of Trustees**

The Hospital has depository accounts at local financial institutions who are affiliated with Hospital trustees and advisory board members. The Hospital earned interest income of \$2,605 and \$4,089 in 2020 and 2019, respectively, on accounts held at these financial institutions.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**9. RELATED PARTY TRANSACTIONS - Continued**

**Board of Trustees - Continued**

The Hospital purchased supplies of \$3,199 and \$258 from companies owned in part by Hospital trustees and advisory board members in 2020 and 2019, respectively.

The Hospital incurred real estate management fees of \$-0- and \$1,220 from companies owned in part by a Hospital advisory board member in 2020 and 2019, respectively.

The Hospital incurred investment consulting fees of \$23,672 and \$24,216 from a company owned in part by a Hospital trustee in 2020 and 2019, respectively.

**10. OPERATING LEASES**

The Hospital has entered into noncancelable operating lease agreements involving two medical clinics and medical equipment. The Hospital has exercised its renewal options which have extended the leases to various dates through fiscal year 2025. The medical clinics rental expense was \$608,779 and \$572,298 for 2020 and 2019, respectively. Additionally, the Hospital has entered into equipment maintenance, service, and other agreements that commit it to multi-year payments through 2025.

The following is a schedule of future minimum payments to be made on these agreements:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$2,286,143
2022	1,487,394
2023	938,301
2024	661,656
2025	<u>108,383</u>
TOTAL	<u>\$5,481,877</u>

The Hospital leases office space in its medical office building to unrelated parties under noncancelable operating lease agreements. The terms of the leases expire at various dates through fiscal year 2026 and have optional renewal clauses with annual rental increase provisions to recover increased expenses. The rental income under the agreements was \$270,764 and \$366,141 for 2020 and 2019, respectively, and is included in investment income.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**10. OPERATING LEASES - Continued**

The following is a schedule of future minimum rental payments to be received, including the subleases:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 173,741
2022	143,048
2023	83,510
2024	78,389
2025	39,232
2026	<u>25,214</u>
 TOTAL	 <u>\$ 543,134</u>

The cost and accumulated depreciation of the leased property are as follows:

	<u>2020</u>	<u>2019</u>
Medical office buildings .....	\$ 3,566,958	\$ 3,566,958
Residential property .....	<u>600,885</u>	<u>600,885</u>
Total property and equipment	4,167,483	4,167,843
Less accumulated depreciation .....	<u>2,154,861</u>	<u>2,036,566</u>
 Net property and equipment	 <u>\$ 2,012,982</u>	 <u>\$ 2,131,277</u>

**11. COMMITMENTS**

The Hospital has committed to construct or purchase various capital improvement and technology projects totaling approximately \$5,500,000, which are expected to be funded using current cash reserves.

The Hospital has also entered into other agreements that have committed it to future payments. The commitments include binding purchase orders, supplemental payments to physicians' groups, equipment maintenance agreements, service agreements, and physician recruiting agreements. The total amount expected to be paid on these commitments is approximately \$3,300,000 with the majority to be paid in 2021.

SPENCER MUNICIPAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**12. CARES ACT FUNDING**

**Provider Relief Funds**

The Hospital received \$7,089,690 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has a deadline to incur eligible expenses through June 30, 2021 and to calculate lost revenue on a calendar year basis through December 31, 2020. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. The terms and conditions are subject to interpretation and future clarification. The Hospital's balances are based upon HHS's guidance in effect at June 30, 2020. Subsequent to year end, HHS issued new temporary guidance on the use of the funds; however, it is reasonably possible the guidance will continue to change into 2021. In addition, this program may be subject to oversight, monitoring, and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term, and the Hospital may be required to repay some of the funds.

As of June 30, 2020, the Hospital had a liability of \$1,763,230, which was included in current liabilities on the accompanying statement of financial position. During the year ended June 30, 2020, the Hospital recognized \$5,326,460 as revenue, included in nonoperating activities on the statement of revenues, expenses, and changes in net position.

**CMS Advanced Payments**

The CMS Advanced payments balance consists of advanced payments received from the Centers for Medicare and Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by the COVID-19 pandemic. The Hospital received \$12,715,502 in advanced payments during April 2020, which will be recouped through the Medicare claims process. This recoupment process will continue until the balance of the advanced payments has been recouped or for 29 months from the date that each advanced payment was issued, at which point any remaining unpaid balance is due. The advanced payments balance is non-interest bearing and may be voluntarily repaid at any time.



SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**13. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Purpose**

Spencer Regional Healthcare Foundation (the Foundation) is an Iowa nonprofit corporation whose purpose is to solicit, receive, and manage gifts for charitable, educational, and scientific purposes in a manner that benefits or supports the delivery of medical and health care services to persons in the region served by Spencer Municipal Hospital (the Hospital) and its affiliates. The majority of the contributions raised are from contributors that reside or have businesses in Northwest Iowa.

**Basis of Accounting**

The Foundation prepares its financial statements using the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (GAAP).

**Financial Statement Presentation**

The costs of providing the program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Foundation reports information regarding its financial position and activities based upon the existence or absence of donor-imposed restrictions according to the following net asset classifications:

*Net Assets Without Donor Restrictions*

These are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the board of directors. Board-designated net assets represent amounts the Foundation has set aside for a specific purpose and are included with net assets without donor restrictions.

*Net Assets With Donor Restrictions*

These are net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, which includes cash held in checking accounts, savings accounts, and money market mutual funds. The Foundation had bank deposits of \$27,839 and \$-0- in excess of federal deposit insurance limits as of June 30, 2020 and 2019, respectively.

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**13. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -**  
Continued

**Public Support, Revenue, and Pledges**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded when the donor makes an unconditional promise to give. Conditional promises to give are recorded as contributions in the year the conditions are met or as received on a cash basis. Unconditional promises to give are recorded as pledges net of a reserve for uncollectible pledges and at their fair value. Pledges expected to be collected in future years are reported based on the present value of the estimated future cash flows using discount rates that range between 0.25% to 2.50%. The discount rate approximates the risk-free interest rate at the time of the pledge. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges at year-end.

**Investments and Fair Value Measurement**

The Foundation's investments are reported at fair value on a recurring basis. GAAP has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants. The standards have a three-level valuation hierarchy based upon observable and non-observable inputs.

The hierarchy consists of three broad levels, described as follows:

- Level 1: Inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority.
- Level 2: Inputs consist of observable inputs other than quoted prices for identical assets.
- Level 3: Inputs consist of unobservable inputs where there is little or no market data and have the lowest priority.

The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**13. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -**  
Continued

**Endowment Activities**

The Foundation began an endowment fund drive in 2014. The purpose of the campaign was to provide future support to the Hospital by contributing a portion of the earnings to the Hospital in accordance with the Foundation's spending policy. The Foundation has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to projects supported by the endowment while seeking to maintain the purchasing power of the endowment assets. The stated investment objectives of the investment policy are to maximize the return on investment while maintaining risk at an authorized level. The policy provides for more detailed allocations and prohibitions on certain investments. The Foundation has an investment committee of the board of directors that monitors the implementation and compliance with the policy. The Foundation has engaged the services of a professional investment manager to invest the endowment assets. Effective March 2018, the board-approved spending policy allows distributions up to 5% of the average market value of the fund's assets using a twelve-quarter trailing average. The spending rate is reviewed at least annually, applied each June 30<sup>th</sup>, and is monitored to ensure that spending does not invade the principal amount of the gifts.

**Beneficial Interest in Community Foundation**

As a component of the endowment campaign, the Foundation entered into an agreement with the Clay County Community Foundation, an affiliate of the Community Foundation of Greater Des Moines (CF), which agreed to accept donations and pledges that have designated the Foundation as a beneficiary. Under the agreement, CF has an obligation to fulfill the wishes of the donors and to monitor the use of the funds and use its variance power it has been granted to make modifications if necessary, in order to adapt to the changing needs of the community. However, the agreement does not allow CF the ability to redirect the designation to a beneficiary of its choice. GAAP requires the Foundation to record the donations upon being notified by CF or the donor. In accordance with the agreement, the investments are owned, held, and managed by CF and are subject to its investment and spending policies. The spending policy is to make annual distributions not to exceed 5% of its managed assets based on a twelve-quarter trailing average of the assets' market value. The beneficial interest is recorded at fair value as reported by CF.

**Education Revolving Loan Fund**

A donor established an education revolving loan fund that provides unsecured, low-interest education loans to students in a health-related field. The loans are recorded at cost less principal payments. Management evaluates the collectability of the loans on an on-going basis and writes them off when they become impaired.

**Amounts and Endowment Funds Held on Behalf of Others**

The Foundation acts as a financial agent for contributions that donors have designated to the Hospital. The Foundation accounts for the receipt of such contributions as liabilities.

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**13. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -**  
Continued

**Annuities Payable**

The Foundation accepts contributions in trusts, whereby donors may contribute assets to the Foundation in exchange for the right of a named beneficiary to receive a fixed dollar annual return or a specific percentage of the original contribution during the beneficiary's lifetime. A portion of the donation is considered to be a charitable contribution for income tax purposes.

The difference between the amount provided for the trust and the present value of the liability for the future payments, as determined by the Internal Revenue Code (the Code) tables based upon actuarial values, is recognized as a contribution at the date of the gift.

**Charitable Disbursements**

Charitable disbursements are recorded when the Foundation makes an unconditional promise to give.

**Donated Services and Expenses**

Donated services and expenses are recorded as contributions at their date of receipt if there is an objective basis available to measure their value and the donated services require a specialized skill which the Foundation would otherwise need to purchase.

The value of donated volunteer services is not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time in the Foundation's operations and fund-raising campaigns.

**Allocation of Functional Expenses**

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and by natural classification in the statements of functional expenses. These expenses require an allocation by management on an equitable basis that is reasonably applied. The majority of the expenses relate directly to the Foundation's program. The other costs of management and general and fund raising consist primarily of payroll and related costs and are allocated on the basis of time and effort.

**Income Taxes**

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Code and therefore has made no provision for federal income taxes in the accompanying financial statements. The Foundation has received a final determination letter ruling from the Internal Revenue Service stating the Foundation is not a "private foundation" within the meaning of Section 509(a) of the Code. As a result of the Foundation's nonprofit status and management's evaluation of current facts and circumstances, no income tax liability or expense has been recorded.

**Estimates**

The preparation of the Foundation's financial statements in accordance with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**13. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -**  
Continued

**Subsequent Events**

The Foundation has evaluated subsequent events through December 10, 2020, the date which the financial statements were available to be issued.

**14. LIQUIDITY AND FINANCIAL ASSETS AVAILABILITY**

The Foundation's liquidity needs predominately consist of charitable disbursements to be made to Spencer Hospital. Substantially all of the Foundation's operating expenses do not require a cash outlay since they are donated on an in-kind basis. Accordingly, the Foundation has flexibility in managing its cash liquidity.

The Foundation's financial assets that can be converted to cash at its control within one year of the balance sheet date to meet its charitable and operating expenditures consist of the following:

	<u>2020</u>	<u>2019</u>
Unrestricted cash and cash equivalents .....	\$ 484,717	\$ 364,878
Unrestricted investments .....	<u>10,257,027</u>	<u>10,701,654</u>
<b>TOTAL</b>	<b><u>\$10,741,744</u></b>	<b><u>\$11,066,532</u></b>

Although the Foundation does not intend to spend from the board-designated endowments, these amounts could be made available if necessary.

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**15. INVESTMENTS**

The following table presents the fair values of the Foundation's investments as separated by the levels.

	<u>2020</u>	<u>2019</u>
Level 1:		
Mutual and exchanged traded funds:		
Balanced fund .....	\$ 7,981,860	\$ 8,011,006
Fixed income fund .....	1,695,881	1,631,283
International fund .....	826,906	935,485
Total mutual and exchanged traded funds	<u>10,504,647</u>	<u>10,577,774</u>
Debt securities:		
Corporate bonds .....	1,773,475	2,087,363
Municipal bonds .....	324,128	226,803
Foreign bonds .....	34,978	99,667
Certificates of deposit .....	476,083	355,108
Total debt securities	<u>2,608,664</u>	<u>2,768,941</u>
Total Level 1 investments	<u>13,113,311</u>	<u>13,346,715</u>
Level 2:		
Cash surrender value of life insurance policies .....	44,665	43,061
Agricultural real estate .....	3,446,584	3,481,211
Total Level 2 investments	<u>3,491,249</u>	<u>3,524,272</u>
Level 3:		
Education loans .....	<u>7,052</u>	<u>5,469</u>
 TOTAL INVESTMENTS	 <u>\$16,611,612</u>	 <u>\$16,876,456</u>

Investments are reported on the Balance Sheets as follows:

Unrestricted assets .....	\$10,301,692	\$10,744,715
Endowment assets .....	6,302,868	6,126,272
Restricted other assets .....	<u>7,052</u>	<u>5,469</u>
 TOTAL INVESTMENTS	 <u>\$16,611,612</u>	 <u>\$16,876,456</u>

Investment return consists of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends .....	\$ 422,464	\$ 372,653
Rental income .....	48,000	20,000
Net appreciation in fair value of investments .....	90,246	560,381
Net realized gains on sale of investments .....	190,109	46,832
Net investment gain of community foundation fund .....	17,066	8,527
Investment management fees .....	<u>(15,919)</u>	<u>(15,294)</u>
 TOTAL INVESTMENT RETURN	 <u>\$ 751,966</u>	 <u>\$ 993,099</u>

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**16. ENDOWMENT ASSETS**

Endowment contributions that have been restricted to the Hospital by the donors have been recorded as a liability in the Foundation's financial statements. Additionally, the Foundation's board approved transferring unrestricted assets to the endowment investment account including a portion of the Hospital's contribution in 2019 (See Note 19).

The composition of the Foundation's endowment assets at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Donor restricted .....	\$ 4,150,960	\$ 4,047,465
Board designated .....	<u>2,754,111</u>	<u>2,730,817</u>
<b>TOTAL</b>	<u><b>\$ 6,905,071</b></u>	<u><b>\$ 6,778,282</b></u>

The donor restricted assets include agricultural real estate of \$1,256,000 and \$1,268,500 at June 30, 2020 and 2019, respectively, and the board designated assets include agricultural real estate of \$2,212,711 at June 30, 2020 and 2019.

Changes in the endowment assets for 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Balance - beginning of the year .....	\$ 6,778,282	\$ 2,463,448
New pledges - net of write-offs and adjustments .....	(34,554)	(3,884)
Cash collected on endowment pledges .....	(15,965)	(95,618)
Spencer Hospital contribution of agricultural real estate ..	-	3,481,211
Investment purchases .....	126,811	802,304
Disbursements to Foundation .....	(24,881)	(22,398)
Net investment income .....	71,851	107,317
Net change in cash .....	<u>3,527</u>	<u>45,902</u>
<b>BALANCE - END OF YEAR</b>	<u><b>\$ 6,905,071</b></u>	<u><b>\$ 6,778,282</b></u>

**Cash**

Cash that has been collected on donations or endowment pledges has been separately reported since it will ultimately be invested in noncurrent assets.

**Endowment Pledges - Net**

Endowment pledges at June 30, 2020 and 2019 and their estimated payments to be received are as follows:

	<u>2020</u>	<u>2019</u>
In less than one year .....	\$ 29,415	\$ 27,930
In one to five years .....	60,605	102,055
In more than five years .....	<u>-</u>	<u>16,000</u>
Gross pledges	90,020	145,985
Less allowance for uncollectible pledges .....	12,500	15,000
Less discount to present value .....	<u>941</u>	<u>3,887</u>
<b>ENDOWMENT PLEDGES - NET</b>	<u><b>\$ 76,579</b></u>	<u><b>\$ 127,098</b></u>

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**16. ENDOWMENT ASSETS - Continued**

**Beneficial Interest in Community Foundation Funds**

The Foundation's account at CF is invested in a portfolio that includes mutual funds, ETF's, and U.S. Government Treasury Bills. According to CF, all of the investments are recorded at fair value using Level 1 inputs and are comprised of the following asset classes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
U.S. Government Treasury Bills .....	\$ 1,636	\$ 1,564
Domestic equity funds .....	160,799	146,232
International equity funds .....	130,893	142,922
Fixed income funds .....	68,138	71,314
Real estate funds .....	31,293	35,657
Hedge funds .....	52,800	53,560
Illiquid real assets .....	-	335
Private equity .....	<u>17,244</u>	<u>14,034</u>
<b>TOTAL</b>	<b><u>\$ 462,803</u></b>	<b><u>\$ 465,618</u></b>

The activity of the beneficial interest for 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance - beginning of year .....	\$ 465,618	\$ 469,989
Contributions and pledge payments received .....	5,000	9,500
Disbursements to Foundation .....	(24,881)	(22,398)
Net investment income .....	<u>17,066</u>	<u>8,527</u>
<b>BALANCE - END OF YEAR</b>	<b><u>\$ 462,803</u></b>	<b><u>\$ 465,618</u></b>



SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**17. RELATED PARTY TRANSACTIONS AND DONATED SERVICES AND EXPENSES**

The Foundation is governed by an independent board that has a minority number of members from the Hospital board; accordingly, the Foundation and the Hospital are considered related parties.

The Hospital donates professional services and administrative expenses to the Foundation. The estimated value of these donated services and expenses has been reflected in the accompanying financial statements as public support with a like amount included in administrative and fundraising expenses. The amounts are based upon the Hospital's costs. Donated services and expenses consisted of the following for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Administrative out-of-pocket expenses .....	\$ 13,345	\$ 9,958
Administrative services .....	77,355	68,421
Fundraising services and expenses .....	<u>59,800</u>	<u>50,394</u>
<b>TOTAL DONATED SERVICES AND EXPENSES</b>	<b><u>\$ 150,500</u></b>	<b><u>\$ 128,773</u></b>

An officer of the Foundation is also an employee of a local bank where the Foundation maintains cash accounts. The book balances held at the bank were \$287,261 and \$241,788 at June 30, 2020 and 2019, respectively, and the interest income earned on these accounts in 2020 and 2019 was \$1,119 and \$764, respectively.

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**18. AMOUNTS HELD ON BEHALF OF OTHERS**

The Foundation has received contributions on behalf of the Hospital. The activity in the Foundation's designated projects as of and for the years ended June 30, 2020 and 2019 is as follows:

	<u>Beginning Balance</u>	<u>Contributions Received and Transfers from Hospital</u>	<u>Transfers to Beneficiaries</u>	<u>Ending Balance</u>
<u>For the Year Ended June 30, 2020</u>				
Abben Cancer Center .....	\$ 905,868	\$ 98,269	\$(965,623)	\$ 38,514
Dialysis .....	9,828	3,174	-	13,002
Hospice .....	528,806	8,693	(9,599)	527,900
Intensive care unit .....	10,476	50	-	10,526
Women's services .....	9,528	3,672	(8,520)	4,680
All others .....	<u>40,829</u>	<u>31,088</u>	<u>(14,213)</u>	<u>57,704</u>
TOTAL	<u>\$1,505,335</u>	<u>\$144,946</u>	<u>\$(997,955)</u>	<u>\$ 652,326</u>

For the Year Ended June 30, 2019

Abben Cancer Center .....	\$ 825,547	\$101,540	\$ (21,219)	\$ 905,868
Dialysis .....	3,525	7,352	(1,049)	9,828
Hospice .....	528,921	10,897	(11,012)	528,806
Intensive care unit .....	10,476	-	-	10,476
Women's services .....	9,982	782	(1,236)	9,528
All others .....	<u>35,364</u>	<u>15,093</u>	<u>(9,628)</u>	<u>40,829</u>
TOTAL	<u>\$1,413,815</u>	<u>\$135,664</u>	<u>\$ (44,144)</u>	<u>\$1,505,335</u>

SPENCER REGIONAL HEALTHCARE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2020 AND 2019

**19. SPENCER HOSPITAL DONATION**

Effective July 1, 2018, the Hospital's Board of Trustees approved the transfer of certain cash, investment, and real estate assets from the Hospital to the Foundation. The assets were comprised of donations originally received by the Hospital prior to the formation of the Foundation and were transferred with the stipulation the funds would continue to be subject to the donors' restrictions and the assets without donor restrictions would be board designated to the Foundation's endowment fund. The components of the contribution and the related restrictions consist of the following:

	Endowment Fund	Board Designated to Endowment Fund	Total
Donor restricted to the Hospital:			
Cash .....	\$ 418,201	\$ 238,106	\$ 656,307
Agricultural real estate .....	<u>1,268,500</u>	<u>2,212,711</u>	<u>3,481,211</u>
Total donor restricted to the Hospital	<u>\$1,686,701</u>	<u>\$2,450,817</u>	<u>4,137,518</u>
Donor restricted to others:			
Cash .....			25,628
Education loans .....			<u>10,197</u>
Total donor restricted to others			<u>35,825</u>
TOTAL CONTRIBUTION			<u>\$4,173,343</u>

**20. RISK AND UNCERTAINTIES**

The Foundation invests in a variety of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Additionally, at year end, the world-wide COVID-19 pandemic outbreak continued to cause business and lifestyle disruptions negatively impacting national and international economies. Due to this unprecedented situation and the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could have a material effect on the Foundation's financial statements. The specific impact is not readily determinable as of June 30, 2020. Accordingly, the financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**SPENCER MUNICIPAL HOSPITAL  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2020**

SPENCER MUNICIPAL HOSPITAL  
BUDGETARY COMPARISON SCHEDULE AND RELATED NOTES  
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Accrual Basis</u>	<u>Budget to Actual Variance</u>
Operating revenues .....	\$100,680,184	\$100,680,184	\$93,645,396	\$ (7,034,788)
Operating expenses .....	<u>96,900,469</u>	<u>96,900,469</u>	<u>95,329,160</u>	<u>1,571,309</u>
Operating income (loss)	3,779,715	3,779,715	(1,683,764)	(5,463,479)
Other nonoperating changes in net position .....	<u>2,770,274</u>	<u>2,770,274</u>	<u>6,244,039</u>	<u>3,473,765</u>
Changes in Net Position	<u>\$ 6,549,989</u>	<u>\$ 6,549,989</u>	<u>\$ 4,560,275</u>	<u>\$ (1,989,714)</u>

**NOTES**

1. This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.
2. The Hospital Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 392.6 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate city officials. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.
3. For 2020, the Hospital's expenses did not exceed the amount budgeted.

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Iowa Public Employees' Retirement System  
For the Last Six Years\*  
(Dollar amounts in thousands)

Required Supplementary Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Hospital's proportion of the net pension liability (asset) .....	.311686%	.311486%	.315295%
Hospital's proportionate share of the net pension liability (asset) .....	\$ 18,049	\$ 19,712	\$ 21,003
Hospital's covered-employee payroll .....	\$ 24,267	\$ 24,046	\$ 24,131
Hospital's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll .....	74.38%	81.98%	87.04%
Plan fiduciary net position as a percentage of the total pension liability .....	85.45%	83.62%	82.21%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

<u>2017</u>	<u>2016</u>	<u>2015</u>
.310395%	.313060%	.317906%
\$ 19,534	\$ 15,467	\$ 12,608
\$ 22,884	\$ 22,106	\$ 21,587
85.36%	69.97%	58.41%
81.82%	85.19%	87.61%

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF HOSPITAL CONTRIBUTIONS

Iowa Public Employees' Retirement System  
Last 10 Fiscal Years  
(Dollar amounts in thousands)

Required Supplementary Information

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 2,344	\$ 2,288	\$ 2,143	\$ 2,155	\$ 2,040	\$ 1,977	\$ 1,935	\$ 1,959	\$ 1,759	\$ 1,490
Contributions in relation to the statutorily required contribution	(2,344)	(2,288)	(2,143)	(2,155)	(2,040)	(1,977)	(1,935)	(1,959)	(1,759)	(1,490)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hospital's covered-employee payroll	\$ 24,887	\$ 24,267	\$ 24,046	\$ 24,131	\$ 22,884	\$ 22,106	\$ 21,587	\$ 23,048	\$ 22,735	\$ 22,417
Contributions as a percentage of covered-employee payroll	9.42%	9.43%	8.91%	8.93%	8.91%	8.94%	8.96%	8.50%	7.74%	6.65%



SPENCER MUNICIPAL HOSPITAL  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2020

**1. CHANGES OF BENEFIT TERMS**

There are no significant changes in benefit terms.

**2. CHANGES OF ASSUMPTIONS**

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 years period.

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF CHANGES IN THE  
TOTAL OPEB LIABILITY, RELATED RATIOS, AND NOTES

FOR THE LAST THREE YEARS  
REQUIRED SUPPLEMENTARY INFORMATION

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost .....	\$ 36,068	\$ 35,920	\$ 34,874
Interest cost .....	17,971	24,415	25,997
Difference between expected and actual experiences .....	(65,575)	(19,633)	143,948
Changes in assumptions .....	37,854	-	40,946
Benefit payments .....	<u>(55,642)</u>	<u>(97,974)</u>	<u>(98,160)</u>
Net change in total OPEB liability	(29,324)	(57,272)	147,605
Total OPEB liability - beginning of year .....	<u>675,368</u>	<u>732,640</u>	<u>585,035</u>
Total OPEB liability - end of year	<u>\$ 646,044</u>	<u>\$ 675,368</u>	<u>\$ 732,640</u>
 Covered-employee payroll .....	 \$24,043,251	 \$22,567,284	 \$21,909,984
Total OPEB liability as a percentage of covered-employee payroll .....	2.69%	2.99%	3.34%

**Notes to Schedule of Changes in the Total OPEB Liability and Related Ratios**

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2020 .....	2.74%
Year ended June 30, 2019 .....	3.44%
Year ended June 30, 2018 .....	3.44%
Year ended June 30, 2017 .....	4.50%

Assets accumulated in a trust:

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

**SPENCER MUNICIPAL HOSPITAL  
SUPPLEMENTAL INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**



SPENCER MUNICIPAL HOSPITAL  
GROSS PATIENT SERVICE REVENUE - Continued  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019	
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Skilled Care</u>	<u>Total</u>	<u>Total</u>
OTHER PROFESSIONAL SERVICES-					
Continued:					
Ultrasound.....	\$ 163,589	\$ 2,703,878	\$ 2,633	\$ 2,870,100	\$ 3,176,453
Stereotactic biopsy.....	-	179,308	-	179,308	353,001
CT scan.....	784,621	7,158,057	13,546	7,956,224	8,322,657
MRI.....	202,160	2,086,619	-	2,288,779	2,387,807
Nuclear medicine.....	23,879	1,082,958	-	1,106,837	1,101,933
Radiation oncology.....	711	8,345,902	-	8,346,613	8,690,063
Pharmacy.....	3,066,726	27,820,128	236,787	31,123,641	30,399,041
Therapy pool.....	-	86,525	-	86,525	187,744
Anesthesiology.....	662,411	2,389,863	3,766	3,056,040	3,484,037
Physical therapy.....	568,409	2,118,318	47,555	2,734,282	3,985,187
Speech therapy.....	15,308	315,724	3,253	334,285	530,615
Wound care.....	79,190	690,247	26,661	796,098	818,121
Occupational therapy.....	415,551	883,560	34,429	1,333,540	1,728,390
Pulmonary function testing.....	1,242	245,252	-	246,494	219,794
Sleep study.....	44,288	603,053	-	647,341	1,118,931
Pulmonary rehab.....	-	99,626	-	99,626	132,319
Cardiac rehab.....	-	312,428	-	312,428	549,058
Dialysis - Spencer.....	-	8,177,625	-	8,177,625	6,968,175
Dialysis - Spirit Lake.....	-	9,465,761	-	9,465,761	13,094,334
TOTAL OTHER PROFESSIONAL SERVICES	12,435,885	90,165,257	469,109	103,070,251	111,129,704
TOTAL GROSS PATIENT SERVICE REVENUE	\$ 48,412,162	\$ 162,008,007	\$ 1,056,831	\$ 211,477,000	\$ 233,088,243

See Independent Auditors' Report

SPENCER MUNICIPAL HOSPITAL  
NET PATIENT SERVICE REVENUE  
AND OTHER OPERATING REVENUES  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
GROSS PATIENT SERVICE REVENUE (Schedule 1).....	\$ 211,477,000	\$ 233,088,243
ADJUSTMENTS TO PATIENT SERVICE REVENUE:		
Medicare program.....	84,359,526	88,924,074
Medicaid program.....	15,080,624	22,351,438
Blue Cross / Wellmark.....	26,953,656	29,424,860
Other payors.....	5,687,362	5,784,269
Charity care.....	720,720	548,856
Bad debts.....	952,046	2,579,592
	<hr/>	<hr/>
TOTAL ADJUSTMENTS TO PATIENT SERVICE REVENUE	133,753,934	149,613,089
	<hr/>	<hr/>
NET PATIENT SERVICE REVENUE	\$ 77,723,066	\$ 83,475,154
	<hr/>	<hr/>
OTHER OPERATING REVENUES:		
Abben Cancer Center billing fees.....	\$ -	\$ 4,557
Athletic enhancement.....	84,878	111,158
Auxiliary income.....	776	1,279
Cafeteria sales.....	326,111	348,846
Community health.....	943,320	1,135,474
Diagnostic imaging storage.....	28,652	36,261
Education programs.....	261,700	289,682
Employee health.....	644	1,145
Gift shop.....	102,960	108,433
Home medical equipment co. earnings.....	211,929	165,987
Housekeeping revenue.....	65,873	64,773
Immunizations .....	83,942	51,126
Laboratory client billing.....	65,750	35,854
Medical oncology.....	74,113	41,891
Medical record transcripts.....	902	490
Miscellaneous.....	136,283	305,523
Outreach services:		
Speech therapy.....	18,023	34,735
Physical therapy.....	220,023	375,317
Planet heart and stroke screening.....	29,468	26,468
Purchase discounts.....	8,220	8,944
Salary reimbursements:		
Sports medicine.....	125,220	209,470
Other.....	209,715	228,660
Spine Clinic.....	275,694	411,454
Steam sold.....	3,774	5,228
Wellness screenings.....	21,052	28,816
Wound care.....	71,412	79,051
	<hr/>	<hr/>
TOTAL OTHER OPERATING REVENUES	\$ 3,370,434	\$ 4,110,622
	<hr/>	<hr/>

See Independent Auditors' Report

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	Salaries		Professional Services		Supplies and Other Expenses	
	2020	2019	2020	2019	2020	2019
Clinical resources.....	\$ -	\$ 411,107	\$ -	\$ -	\$ -	\$ 133
Medical and surgery.....	1,885,332	2,050,120	207,044	107,276	186,858	197,735
Behavioral health.....	1,367,002	1,163,615	484,983	370,559	25,253	34,485
Obstetrics.....	699,537	662,099	17,998	19,877	72,337	65,614
Women's health.....	-	22,350	-	-	-	(215)
Intensive care.....	570,272	516,792	221,679	273,279	53,019	48,097
Intravenous therapy.....	-	-	-	-	30,917	33,981
Dialysis - Spencer.....	546,557	457,824	133,160	126,283	195,045	200,562
Dialysis - Spirit Lake.....	408,810	542,659	137,466	173,456	271,814	326,265
Respiratory therapy.....	271,949	219,415	213	82,013	35,493	30,452
Sleep studies.....	-	-	134,731	180,697	3,172	-
Operating room.....	1,313,752	1,340,662	1,014,107	1,151,542	3,136,324	3,277,933
Central sterilization.....	178,621	170,402	19,048	28,539	184,886	207,182
Same day surgery.....	1,124,398	1,127,387	23,505	1,888	148,103	144,576
Post anesthesia care unit.....	236,473	220,975	7,045	314	121,587	139,659
Emergency service.....	1,030,939	974,040	2,495,685	2,539,975	111,204	112,188
Ambulance.....	591,273	522,209	147,787	314,707	46,512	48,890
Central supply.....	102,309	90,887	-	-	4,652,705	5,202,590
Telemedicine.....	56,828	46,815	13	-	519	416
Infusion Center.....	114,213	12,063	79	-	11,346	166
Wound Care Center.....	51	-	7,093	-	-	-
Laboratory.....	768,050	742,123	567,017	608,010	735,027	705,077
Blood bank.....	-	-	-	-	130,737	136,328
Electrocardiology.....	88,838	70,111	50,841	41,942	-	-
ECHO.....	46,518	52,740	-	-	9,456	-
Radiology.....	643,937	610,865	53,964	57,252	420,865	452,483
Ultrasound.....	194,956	180,815	4	4,080	35,828	29,782
CT scan.....	229,501	229,769	95,776	81,895	245,170	268,597
MRI.....	71,923	70,739	62,106	-	123,353	130,248
PET/CT scan.....	-	-	270,195	225,335	5,015	1,479

See Independent Auditors' Report

SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	Salaries		Professional Services		Supplies and Other Expenses	
	2020	2019	2020	2019	2020	2019
Nuclear medicine.....	\$ 90,858	\$ 83,503	\$ -	\$ -	\$ 184,430	\$ 185,983
Pharmacy.....	1,291,945	1,116,585	192,569	211,580	180,891	203,128
Anesthesiology.....	58,024	68,998	37,710	28,031	215,002	244,476
Physical therapy.....	617,900	578,008	41,841	70,900	18,460	21,007
Occupational therapy.....	276,247	259,017	44,014	46,756	8,705	8,742
Speech therapy.....	122,164	137,802	7,207	6,626	4,650	6,832
Sports medicine.....	9,377	19,277	226,400	387,600	44,882	62,741
Athletic enhancement.....	96,521	91,585	583	754	3,336	5,504
Cardiac rehabilitation.....	149,711	147,299	620	1,212	6,790	8,773
Social services.....	97,632	105,623	-	30	-	-
Medical oncology.....	647,584	612,363	710,682	730,974	101,142	102,074
Home health.....	797,733	741,986	149,006	66,660	41,314	34,608
Wound care.....	198,982	153,284	432	316	34,606	36,179
Hospice.....	111,351	120,494	101,970	64,313	10,054	10,197
Staff development.....	238,853	210,660	73,643	90,132	47,102	68,624
Nutrition services.....	665,311	618,797	1,831	3,520	359,806	361,342
Plant.....	675,684	629,783	30,330	23,155	363,418	364,761
Utilities.....	-	-	-	-	720,837	748,615
Valet.....	91,391	80,826	-	-	1,918	2,157
Housekeeping.....	619,974	603,858	22,100	37,386	104,607	107,963
Gift shop.....	-	-	-	-	95,747	94,192
Laundry.....	28,910	24,323	162,970	175,804	9,312	8,469
Medical records.....	447,939	450,179	124,986	233,871	133,777	38,691
General accounting.....	409,713	376,390	2,340	2,628	42,246	38,619
Patient accounts.....	694,505	725,051	1,263,137	1,427,360	80,536	43,348
Information systems.....	537,560	611,423	67,030	50,309	1,036,039	1,148,084
Administration.....	2,113,131	1,396,666	571,319	1,109,685	690,366	643,287
Supply chain management.....	173,373	168,969	22,850	23,554	49,479	56,761

See Independent Auditors' Report



SPENCER MUNICIPAL HOSPITAL  
SALARIES, PROFESSIONAL SERVICES, AND SUPPLIES AND OTHER EXPENSES - Continued  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	Salaries		Professional Services		Supplies and Other Expenses	
	2020	2019	2020	2019	2020	2019
Communications.....	\$ -	\$ -	\$ -	\$ -	\$ 94,626	\$ 90,791
Printing and duplicating.....	4,242	3,517	-	-	109,129	141,233
Human resources.....	313,635	289,236	18,777	2,620	152,294	145,652
Quality.....	663,000	581,728	324,499	236,958	20,499	17,681
Insurance.....	-	-	-	-	245,255	223,413
Milford clinic.....	136,874	121,496	209,319	193,817	55,615	54,234
Sioux Rapids clinic.....	114,135	109,460	202,506	195,847	73,235	71,350
Clinic administration.....	21,928	22,350	-	-	2,256	1,621
AMG clinic.....	86,001	90,817	7,956,465	8,973,055	1,503,419	1,482,932
Hospitalist.....	137,821	139,113	1,355,272	1,369,547	(659,498)	(406,704)
Behavioral clinic.....	48,917	6,214	87,276	20,519	(60)	459
Spine clinic.....	-	-	319,850	318,943	18,930	17,801
NWIBJ clinic.....	11,627	-	2,029,088	-	215,954	-
Sports medicine clinic.....	10,210	-	44,910	-	22,277	-
ENT clinic.....	31,142	-	77,118	-	8,705	-
Rehabilitation clinics.....	64,338	37,142	-	-	-	33
Radiology oncology.....	520,173	464,011	924,591	822,644	362,562	387,824
TOTAL	\$ 25,968,455	\$ 24,506,416	\$ 23,556,784	\$ 23,316,025	\$ 17,807,195	\$ 18,678,180

See Independent Auditors' Report

SPENCER MUNICIPAL HOSPITAL  
 PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
 AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

## PATIENT RECEIVABLES ANALYSIS OF AGING:

	2020		2019	
	<u>Amount</u>	<u>Percent To Total</u>	<u>Amount</u>	<u>Percent To Total</u>
DAYS SINCE DISCHARGE:				
00 - 30.....	\$ 12,630,267	36.53%	\$ 14,709,764	44.90%
31 - 60.....	2,508,743	7.26%	3,280,780	10.02%
61 - 90.....	1,009,462	2.92%	1,722,458	5.26%
91 - 120.....	1,428,914	4.13%	1,275,772	3.89%
Over 120.....	5,366,414	15.52%	3,077,118	9.39%
Provider based clinic receivables.....	1,762,627	5.10%	921,402	2.81%
TOTAL RECEIVABLES BILLED	24,706,427	71.46%	24,987,294	76.27%
Unbilled:				
In Hospital.....	9,582,774	27.72%	7,679,196	23.44%
In provider based clinic.....	282,217	0.82%	93,815	0.29%
TOTAL PATIENT RECEIVABLES	34,571,418	100.00%	32,760,305	100.00%
Allowance for doubtful accounts.....	(2,229,000)		(2,839,000)	
Allowance for recourse loans.....	(7,310)		-	
Allowance for contractual adjustments.....	(18,695,808)		(18,071,000)	
Provider based clinic allowance for contractual adjustments .....	(761,503)		(263,995)	
TOTAL ALLOWANCES	(21,693,621)		(21,173,995)	
PATIENT RECEIVABLES - NET	<u>\$ 12,877,797</u>		<u>\$ 11,586,310</u>	

## ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	<u>2020</u>	<u>2019</u>
BALANCE - BEGINNING OF YEAR	\$ 2,839,000	\$ 3,082,000
Provision charged to expense.....	952,046	2,579,592
Accounts written off.....	(2,822,527)	(4,392,969)
Recoveries of accounts previously written off.....	1,260,481	1,570,377
BALANCE - END OF YEAR	<u>\$ 2,229,000</u>	<u>\$ 2,839,000</u>

See Independent Auditors' Report

SPENCER MUNICIPAL HOSPITAL  
INVENTORIES AND PREPAID EXPENSES  
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
INVENTORIES:		
Store room.....	\$ 832,003	\$ 489,689
Nutrition services.....	23,273	23,273
Laboratory.....	103,992	103,992
Pharmacy.....	1,279,218	1,093,421
Radiology.....	13,674	13,674
Surgery.....	2,112,710	1,772,672
Provider based clinic.....	158,568	34,598
Other departments.....	<u>79,127</u>	<u>59,608</u>
TOTALS	<u>\$ 4,602,565</u>	<u>\$ 3,590,927</u>
PREPAID EXPENSES:		
Service contracts and other.....	\$ 1,302,770	\$ 1,629,417
Association dues.....	<u>39,773</u>	<u>39,416</u>
TOTALS	<u>\$ 1,342,543</u>	<u>\$ 1,668,833</u>

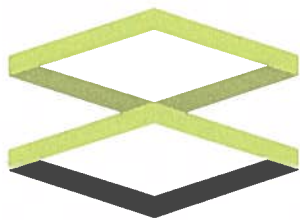
See Independent Auditors' Report

**SPENCER MUNICIPAL HOSPITAL  
OTHER INFORMATION  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

SPENCER MUNICIPAL HOSPITAL  
COMPARATIVE STATISTICS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019  
UNAUDITED

	<u>2020</u>	<u>2019</u>
Admissions:		
Medical/surgery, obstetrics & intensive care.....	1,675	1,869
Behavioral health unit.....	467	486
Swing bed and inn care.....	<u>49</u>	<u>54</u>
TOTAL	<u><u>2,191</u></u>	<u><u>2,409</u></u>
Discharges:		
Medical/surgery, obstetrics & intensive care.....	1,660	1,849
Behavioral health unit.....	470	484
Swing bed and inn care.....	<u>48</u>	<u>56</u>
TOTAL	<u><u>2,178</u></u>	<u><u>2,389</u></u>
Patient days:		
Medical/surgery, obstetrics & intensive care.....	5,325	5,903
Behavioral health unit.....	2,251	2,677
Swing bed and inn care.....	<u>536</u>	<u>669</u>
TOTAL	<u><u>8,112</u></u>	<u><u>9,249</u></u>
Average number of patients per day:		
Medical/surgery, obstetrics & intensive care.....	14.59	16.17
Behavioral health unit.....	6.17	7.33
Swing bed and inn care.....	1.47	1.83
Average length of stay (days):		
Medical/surgery, obstetrics & intensive care.....	3.18	3.16
Behavioral health unit.....	4.82	5.51
Swing bed and inn care.....	10.94	12.39
Births.....	<u>259</u>	<u>250</u>
Outpatient visits .....	<u><u>108,680</u></u>	<u><u>123,153</u></u>
Licensed beds at end of year.....	<u><u>99</u></u>	<u><u>99</u></u>

See Independent Auditors' Report



**WINTHER STAVE & CO | LLP**  
Certified Public Accountants

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

[www.winther-stave.com](http://www.winther-stave.com)

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351-0187  
Phone 712-338-2488  
FAX 712-338-2510

---

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Board of Trustees of  
Spencer Municipal Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying basic financial statements of Spencer Municipal Hospital (Hospital) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Spencer Municipal Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wintner, Stave & Co, LLP

December 10, 2020  
Spencer, Iowa

SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2020

**Part I: Findings Related to the Financial Statements**

None



SPENCER MUNICIPAL HOSPITAL  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

**Part II: Other Findings Related to Required Statutory Reporting**

**II-A-20**     Certified Budget - For the year ended June 30, 2020, the Hospital's expenses did not exceed the amount budgeted.

**II-B-20**     Questionable Disbursements - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

**II-C-20**     Travel Expense - No expenditures of the Hospital for travel expenses of spouses of Hospital officials or employees were noted.

**II-D-20**     Business Transactions - Business transactions between the Hospital and Hospital officials or employees are detailed as follows:

<u>Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Neal Conover, Board member	Interest income	\$ 7
Co-owner of Northwest Bank and affiliates	Investment consulting fees	\$23,672
Steve Lensing, Board member	Supply purchases	\$ 724
Co-owner of Arnold Motor Supply		
Amanda Bare, Advisory member	Sanitation supplies	\$ 2,475
Co-owner of Century Farms Distillery		
Bruce Nystrom, Board member, and John Cotton, Advisory member	Interest income	\$ 2,598
Co-owners Community State Bank		

The transactions do not appear to represent a conflict of interest since the transactions were within permitted limits or entered into through competitive bidding processes; additionally with regards to the banking transactions, the bank has been approved by the board of trustees in accordance with Chapter 362.5(2) of the Code of Iowa.

**II-E-20**     Restricted Donor Activity - No transactions were noted between the Hospital, Hospital officials, Hospital employees, and restricted donors in compliance with Chapter 68B of the Code of Iowa.

**II-F-20**     Board Minutes - No transactions were found that we believe should have been approved in Board minutes but were not.

**II-G-20**     Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.